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The American Paradox

The Report of The President's Commission on Income Maintenance Programs

November 1969

The President's Commission
On Income Maintenance Programs
1016 16th Street, N. W.
Washington, D. C. 20036

November 12, 1969

The President
The White House
Washington, D. C.

Dear Mr. President:

The President's Commission on Income Maintenance Programs herewith submits its final report.

This Commission was charged in January 1968 with studying the income needs of poor Americans, with examining all existing Government programs designed to meet those needs, and with making just and equitable recommendations for constructive improvements. In the past 22 months, through field visits and public hearings, technical studies, and official briefings, we have visited with the poor and reviewed the operations of welfare and related programs.

This report presents our findings regarding the problems of poverty and income in America and the remedies we propose to meet these problems. The Commission has unanimously approved the report.

Our basic conclusions are that even if the existing welfare and related programs are improved, they are incapable of assuring that all Americans receive an adequate income. We have therefore recommended the adoption of a new program of income supplementation for all Americans in need. In addition, existing programs need changes and improvements if they are to form an integrated system with the proposed new program.

We feel that the Family Assistance Program that you proposed to Congress earlier this year represents a major step forward towards meeting the needs that we have documented. We are pleased to note that the basic structure of the Family Assistance Program is similar to that of the program we have proposed, although there are many differences as well. Both programs represent a marked departure from past principles and assumptions that have proven to be incorrect. And reliance on false premises for many years has led us to rely on inadequate and conceptually unsound programs.

We respectfully submit our report in the hopes that it will be of assistance to you, other officials of Government, and all Americans interested in achieving what we consider to be a major National goal—assuring that an adequate income is available to each American.

Respectfully submitted,

Ben W. Heineman

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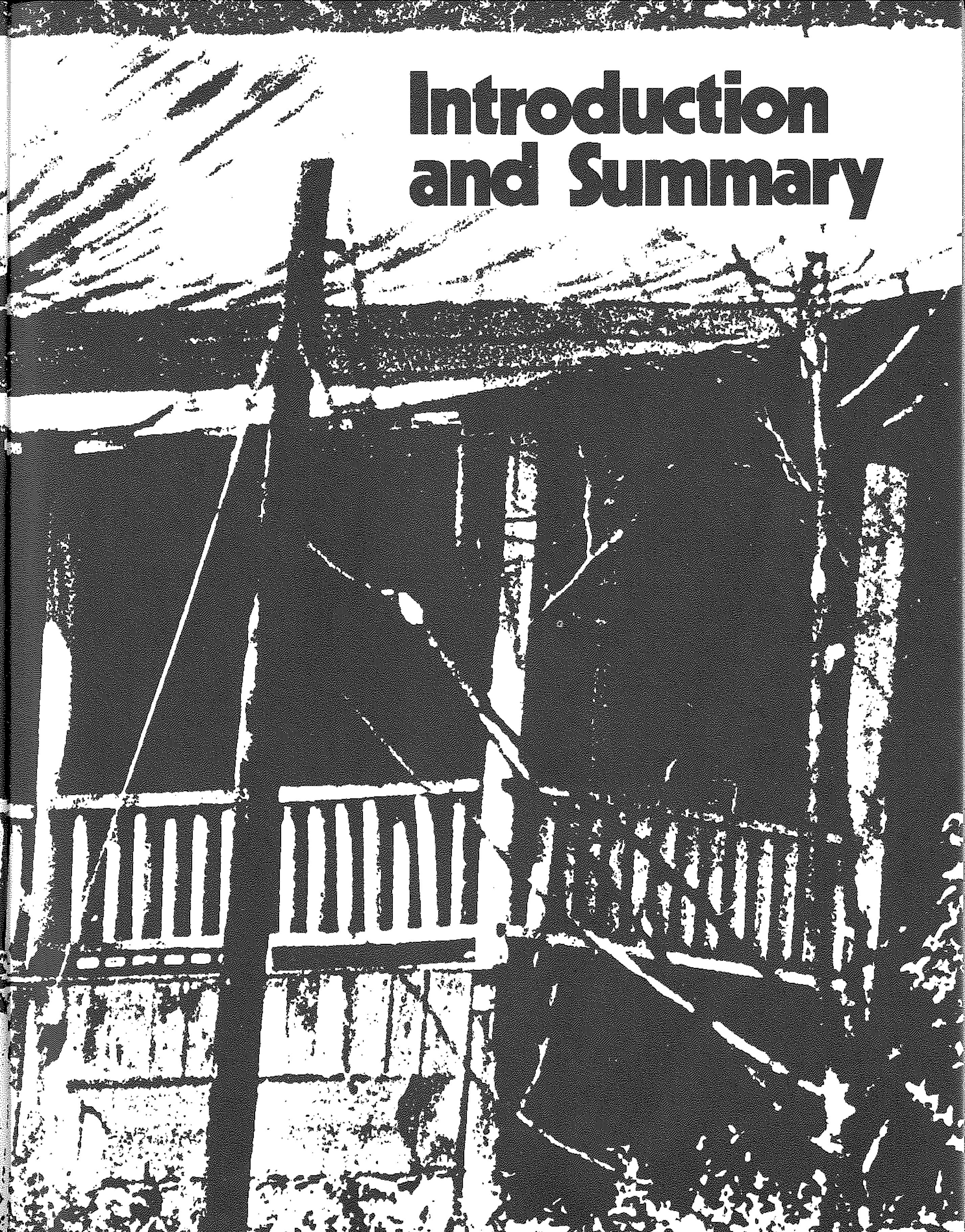

Prologue

For the past 22 months this Commission has been studying the poor in America and the programs designed to help them. In the course of our investigations we have traveled throughout the country and talked with many of the poor as well as with public officials. We have found severe poverty and its effects throughout the Nation and among all ethnic groups. This poverty is not only relative to rising American living standards, but is often stark and absolute. There are too many American families with inadequate shelter, inadequate clothing, absolute hunger, and unhealthy living conditions. Millions of persons in our society do not have a sufficient share of America's affluence to live decently. They eke out a bare existence under deplorable conditions.

We have concluded that more often than not the reason for poverty is not some personal failing, but the accident of being born to the wrong parents, or the lack of opportunity to become nonpoor, or some other circumstance over which individuals have no control.

In addition to the current poor, we have been concerned with others who easily could become poor. Most persons who depend on earnings for their incomes face the risk of losing that access to prosperity through accident, disability, loss of a breadwinner, or obsolescence of skills. Few Americans are wholly free from the economic vicissitudes of life.

We have found that existing Governmental mechanisms and institutions are simply inadequate for alleviating existing poverty and protecting the nonpoor against risks that they are incapable of dealing with themselves. We have found that there is no overall system of economic security. But the Commission feels strongly that the problem of poverty must be dealt with by the Federal Government. It is possible to assure basic economic security for all Americans within the framework of existing political and economic institutions. It is time to construct a system which will provide that security.

The Poor

At the end of 1968 there were 25 million poor Americans as measured by the Federal Government's poverty index. This index allows a nonfarm family of four $3,553 per year, or $2.43 per person per day, to meet all living expenses. In contrast to the poverty index, a recent Department of Labor study found that an urban American family of four needed at least $4.05 per person per day to meet its needs. Using the lower, official poverty definition, we find that: about one-half of all poor families live in the South; two-fifths of the poor are children under 18; two-thirds are white; one-fifth are over age 65; and perhaps most striking of all, over one-third of the poor live in families in which the family head works throughout the year. Among the "working poor" the average gap between family income and the poverty line exceeds $1,000.

These figures, by themselves, do not convey the barrenness of poverty, or the humanity and diversity of the poor. Such qualitative aspects are not easily captured by a statistical profile. It is difficult to discuss analytically the consequences which stark poverty imposes on people's lives. But a visitor feels these consequences in a two-room shack in the Kentucky Appalachians inhabited by an unemployed miner, his wife and his

seven children; or in seeing the ugly decay of urban tenements; or in the dirty hands and faces of rural children, whose families depend for water on open wells which may go dry in summer and which may be located downhill from the neighbor's privy. And as one talks to families with small children who have "water gravy" for breakfast, one is reminded of recent studies showing a high correlation between malnutrition and mental retardation.

The barren life styles of the poor are not primarily the result of ignorance or indifference but rather the result of insufficient money with which to purchase proper food, housing, medical attention, and other basic amenities of contemporary life. The urgency of the problems of low-income persons and the lasting effects of their day-to-day deprivation are compelling.

In many cases the possibility for improvement is not realistically within the power of the poor. In talking and listening to the poor, one is struck by the vicious circles which characterize poverty. Rising from poverty seems inordinately difficult for the ordinary man. We recognize this unconsciously in our strong admiration for those who manage to escape poverty on their own, but we seldom note how few they are.

Very few people seem poor because they are shiftless. Fully 70 percent of the nonaged heads of poor families worked for part of the year in 1966. And most of those who did not work at all were ill or disabled or were women with absent husbands and young children. Some of the poor are older people who *became* poor when they no longer could work; some were born in poor families and never gained sufficient education or skills to command decent jobs; some are now children in poor families who will make up the next generation of poverty. Many are physically disabled, or retarded, or trapped by discrimination. Many are poor by sheer chance.

The simple day-to-day effort to survive may require all of a poor person's will. The disabled man or the elderly couple can do little to escape poverty. The woman with several children cannot manage a household while simultaneously

looking for work or being trained. The unskilled, middle-aged, unemployed laborer is helpless in the face of unemployment.

Finally, we must note that the problem will not solve itself in time. The poor will not be able to become unpoor without Government aid. The challenge we face is to develop the means of assuring economic security for all Americans. In order to develop an effective program, we must learn the lessons of earlier Federal efforts. Existing Government programs have a major role to play in achieving this objective, but new programs also are needed. For the existing programs do not constitute the broad system that is required.

Current Programs

The Origins of Existing Programs

Existing income maintenance programs originated in the Depression of the 1930's when millions were unemployed. Underlying the design of these programs was the notion that in our society employable people should obtain their income through employment. If there were enough jobs, adequate education would assure young people a place in the labor force when they left school. Then families and individuals would need protection only against changes in the unemployment rate, and against the crippling losses of income if the breadwinner retired, died, or became disabled. Public Assistance would be needed as a "residual program" to aid those considered unable to enter the labor force.

This analysis gave birth to the Social Security system, which provided partial income replacement to workers and their families in the event of retirement or death. More recently it has provided income to disabled workers and health insurance for the aged. State Unemployment Insurance programs were created to keep those who were unemployed briefly from becoming pauperized. And the welfare system was constructed as an optional State program, jointly financed by all levels of government, to provide aid for particular categories of the needy: the blind, the aged, the disabled, and dependent children. Generally, able-bodied male workers were ineligible for assistance under any of the welfare programs.

In the mid-1960's an effort was made to mount a war on poverty, but the strategies adopted were focused primarily on long-run creation of opportunities. This strategy did little to affect incomes directly. Existing income maintenance programs have been broadened, but their structure has not been changed. This structure—and the strategy underlying its development—has severe flaws that prevent it from reaching all of the poor effectively.

The Employed and Employable Poor Are Excluded From Cash Transfers

Largely because of the assumption that everyone who is employable could work at adequate wages, no Federal income transfer programs have been enacted to supplement the earnings of the employed poor. Yet one-third of all persons in poor families in 1966 lived in families headed by full-time employed male workers. If the head of a family of four worked forty hours a week, fifty-two weeks a year, at the minimum wage of $1.60 per hour, family income would still fall below the poverty line. Yet nearly one-half of the working poor families have six or more members, so that full year employment at more than $2.00 per hour would be required for them even to reach the poverty level. And jobs with low wages often are characterized by layoffs, short weeks, or seasonal employment which further reduce the family's potential income. There are at least 10 million jobs in this country—incuding some State and municipal government jobs—which pay less than the current Federal minimum wage.

The major program dealing with the temporarily unemployed, but employable, person is Unemployment Insurance. However, it did not provide benefits for nearly two-thirds of total unemployment in 1968 because of gaps in coverage and expiration of benefits. Unemployment Insurance programs, which pay benefits for only a specified

number of weeks, have payment levels below the poverty line for families in most States.

The Aid to Families with Dependent Children program (AFDC), which is aimed primarily at families with absent or incapacited fathers, can provide for the unemployed able-bodied male head of the household, but the eligibility requirements for this component of the program are very restrictive. Only 25 States have chosen to implement this component since its enactment in 1961, and less than 100,000 families are benefiting from it.

The structure of the Aid To Families with Dependent Children program thus makes its profitable in many cases for families to break up. AFDC benefits vary by family size and need for income. They provide a predictable income, while wage income is subject to vagaries of a labor market which has a diminishing need for low-skilled workers.

The lack of a program which aids working men and women not only creates economic disincentives and encourages family breakup; it also is socially divisive, because it is possible for incomes of some aid recipients to exceed the incomes of low earners. Viewed in this context, some of the resentment that has developed against welfare programs may have sprung from a sense of injustice about programs which reverse positions and ranks in the income distribution for no equitable reason.

Under the welfare system we have clung to the notion that employment and receipt of assistance must be mutually exclusive. This view is untenable in a world in which employable persons may have potential earnings below assistance standards. Thus, it is possible to reverse positions in the income scale. Exclusion of the employable and the working poor from categories aided by the Government would be justifiable only if all who worked achieved adequate incomes. But that is simply not true, and the prospects for it becoming true in the near future are dim.

Programs that place the hard-core unemployed in the labor force and upgrade the skills of those employed at very low wages can and do work. But they are expensive and slow.

Currently, such programs are reaching only a few hundred thousand of the poor annually, and not all of the programs are successful. It has been estimated that reaching all of the employable poor who could benefit from manpower services and training would require making such services available to 11 million persons. Current employment and training programs can and should be expanded. But even if funding levels were increased substantially, training and manpower programs can be viewed only as a long-term solution. The number of persons in need of services is too large to serve quickly. And, even completion of a training program and placement on a job does not guarantee an adequate income to a family with several children.

Social Insurance Benefits Depend on Earnings

Social insurance programs protect workers and their families against the loss of earnings from some of the hazards of industrial life. Each social insurance plan is built around a particular risk that has been identified as a potential interruption to earnings. Old Age, Survivors, and Disability Insurance, Unemployment Insurance, and other forms of social insurance generally are financed through contributions based on wages, and they pay benefits based on earning levels before employment is interrupted.

Social insurance benefits also are provided to some persons who have contributed little or

nothing, and the ratio of benefits to earnings declines as earning levels increase, thereby focusing benefits somewhat on the lowest income earners. Despite attempts to replace a higher proportion of earnings for lower-income workers, however, social insurance programs still do not provide adequate benefits to the poorest. They pay adequate benefits only to those with strong labor force attachments and relatively high earnings records. Because social insurance is related closely to employment, it cannot reach effectively those with fleeting or irregular labor force ties. Low-wage earners will receive low social insurance benefits; thus the poor worker becomes the poor beneficiary. And many jobs are not covered by insurance.

Social insurance programs do a great deal to insure that the average worker does not become poor upon retirement, disability, or short-term unemployment. They prevent many persons and families from falling into poverty upon the death of a worker. But adequate insurance benefits simply cannot be provided to the worker with inadequate earnings in an earnings-related benefit system.

Public Assistance Benefits Are Low and Program Coverage Is Restricted

The target population of Federally-aided welfare programs has never included all of "the needy." The working poor and the employable but unemployed poor, for example, are excluded from potential eligibility.

Many of those who might be eligible for existing assistance programs—the aged, blind, disabled, dependent children and spouses—do not qualify for benefits because of the variety of Federal, State, and local nonfinancial eligibility requirements. Program features and regulations often seem designed to restrict benefits through the imposition of residence requirements, tests of "moral worthiness," mandatory acceptance of social services, overly stringent asset tests, income limits set below the poverty line, and the like.

These requirements vary considerably from program to program and from region to region. Persons eligible for benefits in some States may be ineligible in others, although their financial need may be identical. Some persons do not receive benefits because they are not aware of their eligibility. Some persons decline to participate in welfare and food programs because of demeaning administrative techniques. Many people never are eligible for some programs because the States, counties, or cities in which they live have not elected to participate in the programs. And, of course, those who are not aged, blind, or sufficiently disabled, and who do not have dependent children, are ineligible for any Federally-aided Public Assistance program although they may be in need.

Those who do meet all of the requirements for eligibility receive income support that is generally inadequate. Nationally, the average payment per recipient in January 1969 was $43 per month for AFDC, and $70 per month for Old Age Assistance. Moreover, there are wide differences in the treatment of needy individuals who fall into the same categories because of State variations in payment levels. Within AFDC, for example, average grants per recipient ranged from $10 per

month in Mississippi to $65 in Massachusetts in January 1969. For Old Age Assistance the range was from $36 in Mississippi to $115 in New Hampshire.

The Role for New Programs

Clearly, the three-pronged strategy of the 1930's—relying on employment to provide adequate income to workers and their families, social insurance to maintain incomes of workers forced out of their jobs, and residual aid to those who are unemployable for non-insured reasons—has not eliminated poverty, and it cannot.

Such a conclusion does not preclude improvement in existing programs. Improvement in training programs, social insurance programs, and similar reforms are important. But a new program is required to achieve objectives that existing programs cannot reach.

This Commission has concluded that there must be a larger role for cash grants in fighting poverty than we have acknowledged in the past.

We have reviewed many proposals for new programs and for reforms of existing programs. We have concluded that a new income maintenance program is needed, a program which directly increases the incomes of the poor. The new program should be adopted along with specific changes in existing programs.

Recommendations

Our main recommendation is for the creation of a universal income supplement program financed and administered by the Federal Government, making cash payments to all members of the population with income needs. The payments would vary by family size and would provide a base income for any needy family or individual. The basic payment would be reduced by 50 cents for each dollar of income from other sources. This formula would encourage recipients to continue working or to seek employment and would not discourage continued development of private savings and insurance, and social insurance systems. We propose that the program be initiated at a level providing a base income of $2,400 to a family of four. Families of four with other income up to $4,800 thus would receive some supplementation. This program would provide an estimated $6 billion of net added income to 10 million households in 1971.

Since $2,400 is below the poverty line for a family of four, the basic benefit would not meet the full income needs of families with no other income. *This level was not chosen because we feel that it is an adequate income, but because it is a practical program that can be implemented in the near future.* The level can be raised to an adequate level within a short period of time. Of the $6 billion added to disposable household income, $5 billion would go directly to the poor, and the remainder to those somewhat above the poverty line. Half of the income needs of the poor would be met by this program alone.

The Commission strongly recommends that the benefit levels be raised as rapidly as is practical and possible in the future. To set payment levels at the poverty line immediately would cost an

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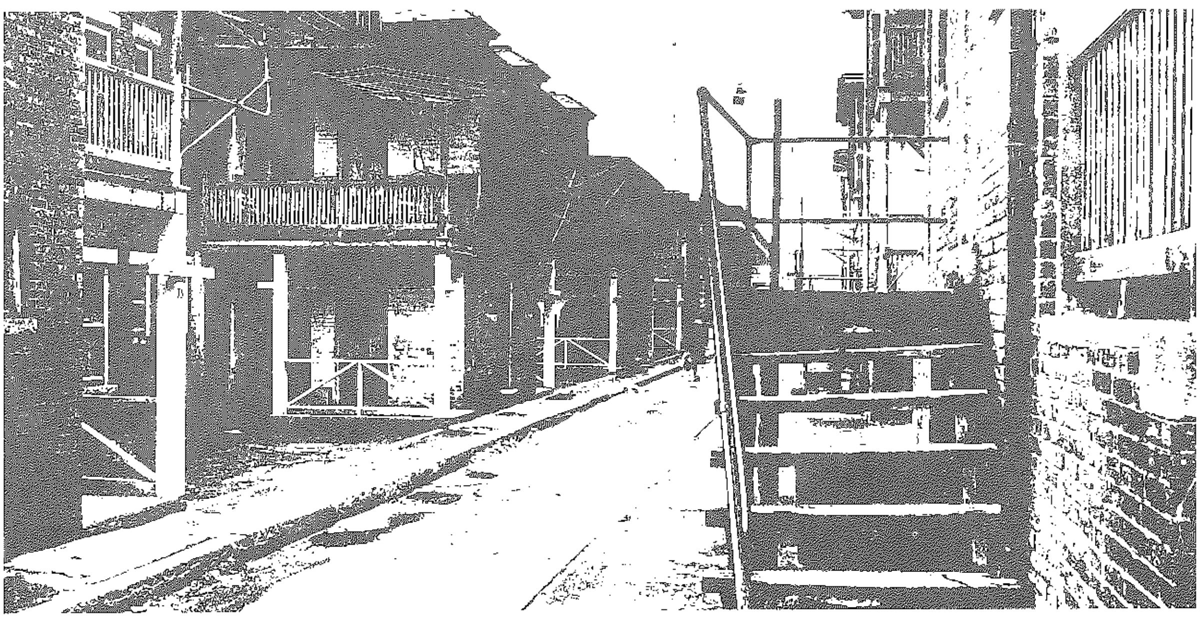
estimated $27 billion, and provide income transfers to a total of 24 million households. We believe that a program of that potential magnitude must be adopted in steps. We have recommended a feasible first step.

This basic program can be adopted with no statutory changes in other programs since benefits of other income-tested programs would decline automatically under current law or practice. The program would have the immediate effect of improving the income position of most of the poor—the working poor as well as the unemployed, couples without children, single individuals, the aged, and female-headed households in locations where AFDC payments are very low. It would also improve the income position of many poor persons who are reluctant to apply for Public Assistance. The long-run impact of the program could be a reduction in variations of living standards throughout the country.

Any program which provides income without work may have some effect on labor force participation. Some secondary and part-time workers as well as primary workers may withdraw from the labor force or reduce their hours worked. However, we do not believe that work disincentive effects of the proposed program would be serious. The level of income provided is low, and we do not believe that the poor are anxious to receive less income rather than more. The proposed program would always result in significantly higher income for those who work than for those who do not. We feel that reduced work effort is likely to be concentrated among secondary family workers, female family heads, and the elderly, rather than among nonaged male family heads. Thus, reduced work effort may be desirable for some of those affected.

The focus on the possible work disincentive effects of transfer programs has in the past been used to avoid serious consideration of such programs. It has led policymakers to overlook the crippling effects of absolute poverty. Men and women without income cannot afford to take risks even for a day; they cannot take advantage of opportunities for future improvement which require a current investment of time and money. We believe that only when the poor are assured a minimum stable income can the other mechanisms in our fight against poverty—education, training, health, and employment—begin to function adequately.

The Commission recommends that Federal participation in existing Public Assistance programs be terminated. One objective is to replace



the existing categorical Public Assistance system with a universal Federal program. Thus, Federal funds should be used to raise the proposed new program to adequacy as rapidly as possible rather than to extend the Public Assistance program. In some States current Public Assistance benefit levels exceed the proposed initial level of the Federal income supplement program. The Commission strongly urges that those States pay supplemental benefits to those currently eligible for aid with the savings generated by the new Federal program. If States supplemented incomes of current assistance recipients after adoption of a Federal income supplement at the recommended level, they would still have savings of an estimated one billion dollars in 1971. Thus, the program has an implicit revenue-sharing feature.

The Commission recommends Federal matching funds be made available for a new, locally-administered, noncategorical, Temporary Assistance program. This program would provide for short-term emergency income needs which could not be met under the basic Federal program because of time lags. The Federal Government would pay 50 percent of the costs of such assistance up to the level of the full Federal program, but only during periods when the individual's income was below his maximum payment under the direct Federal income supplement program. Estimated total cost would be $600 million. The Federal share would be $300 million.

The Commission recommends that coverage under Unemployment Insurance programs be broadened, and benefits raised to provide more adequate protection to workers against unemployment. Benefit schedules under Social Security programs should be reconsidered in the light of adoption of a universal income supplement plan. The need for welfare considerations in setting benefit levels would be considerably weakened.

The Commission regards the provision of income-in-kind as a poor substitute for providing adequate cash incomes to the poor. *Special programs providing food to poor families should be phased out and equivalent assistance given in cash.* Income supplements, when they approach adequate levels, also would allow housing programs to be phased out as soon as the market could meet the demand for low-cost housing.

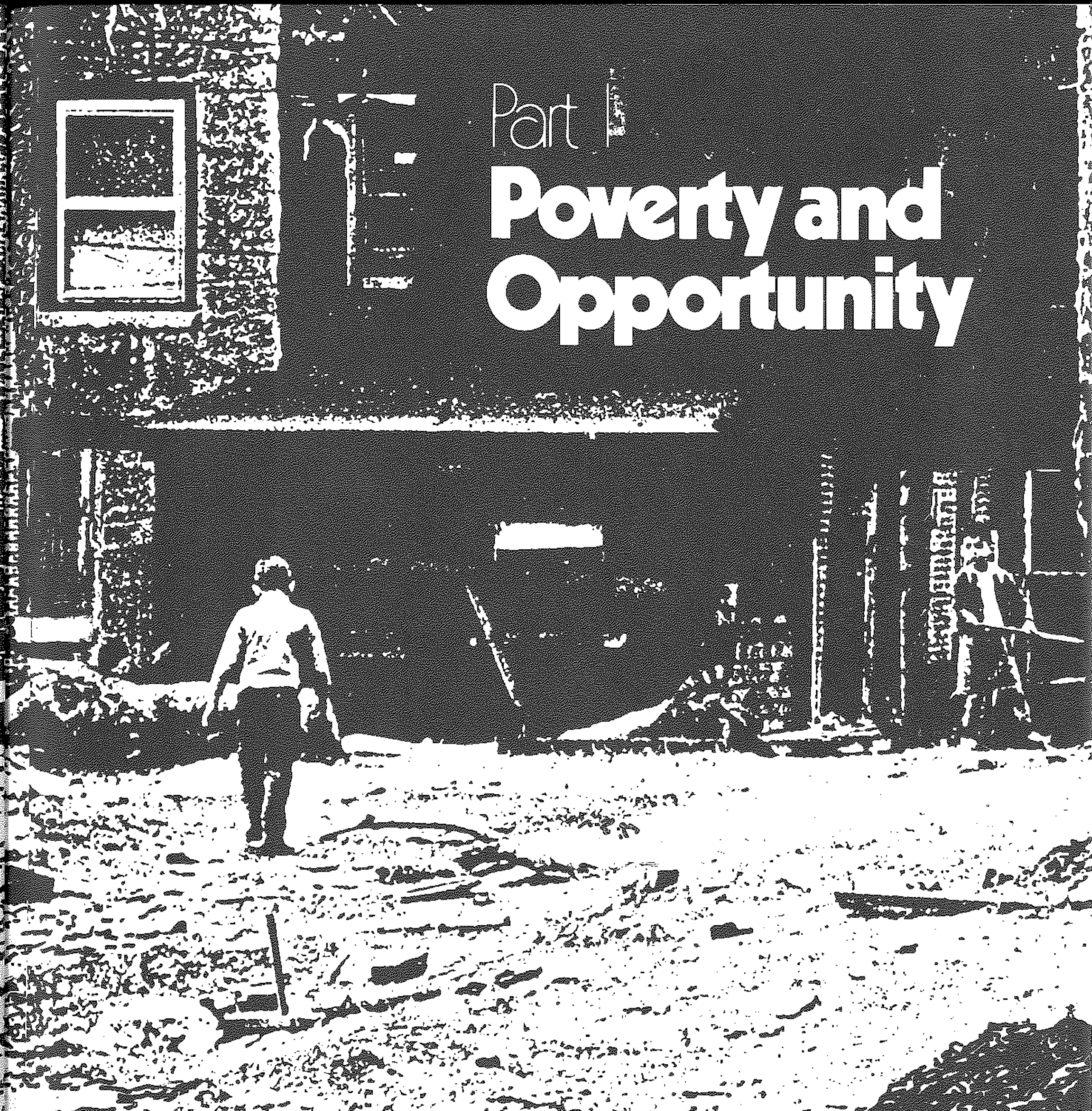
Manpower and training programs require continued development, modification, and careful evaluation. These programs have great potential for helping many individuals find jobs and for improving the functioning of the economy. In the long run they may reduce the need for transfer programs. In the few years that they have operated, they have shown considerable promise. *We recommend consolidation and improvement of existing programs, and expansion of the range and scope of manpower and related services offered.*

One major cause of poverty is that many families have more children than they can afford. While we believe an effective income maintenance program must assure that no child is deprived of the necessities of life, we feel equally strongly that family planning aid should be made available and accessible to those who want it. *Therefore, we recommend an expanded program of birth control information and services.*

The overall annual added Federal cost of our recommendations, including the basic plan, is estimated to be under $10 billion. While this is a large amount of money, it does not meet fully the obvious need. Rather than propose a panacea, the Commission has chosen a course that can be followed quicky and, we believe, can achieve a great deal with few adverse side effects.

The relatively low dollar cost of the program recommended should underscore the fact that these proposals are not designed to solve all the Nation's social problems. But the level of this universal program, which equitably and simply transfers cash income to the poor, can be raised in the future. With such a basis we shall have gone far towards solving the critical problem of poverty in this Nation. By approaching this goal in a manner that reaffirms our society's respect for the worth and dignity of all its citizens, we shall have recognized the responsibilities of affluence and, in doing that, we shall have improved the quality of our National life.

Part I
Poverty and Opportunity



Chapter 1

The Meaning of Poverty

The Poor

The postwar period has witnessed a remarkable improvement in the material welfare of most Americans. Even with the effect of inflation taken into account, median family income grew by 76 percent between 1947 and 1967. The proportion of families enjoying a total income of $10,000 or more increased from 22 to 34 percent during the same period. And, in recent years, we have taken justifiable satisfaction in the reduction of poverty from 22 percent of the population in 1959 to 13 percent in 1968. But the fact remains that 25 million persons are still poor.

Thousands of pages of statistics about the poor have been tabulated and published. The poor have been measured, surveyed, and sorted into numerous categories, some of which are summarized in Table 1–1 for 1966.[1] But in the end, the diversity of the poor overwhelms any simple attempt to describe them with statistics. What may be said simply is that millions of our fellow citizens are living in severe poverty, with few prospects for a better life, and often with little hope for the future.

To the poor, poverty is no statistical or sociological matter. Their condition exists as a daily fight for survival. This Commission has found their deprivation to be real, not a trick of rhetoric or statistics.[2] And for many of the poor, their poverty is not a temporary situation, but an enduring fact of life.

[1] Aggregate poverty counts are available for 1968. The latest year for which detailed breakdowns are available is 1966.

[2] In the course of our work, field investigations and public hearings were conducted in 17 areas. Transcripts of the hearings are available in the Archives.

TABLE 1–1. Selected Characteristics of the Poor and the Nonpoor, 1966

Characteristic	Number (millions)		Percent distribution	
	Poor	Non-poor	Poor	Non-poor
Age				
Total	30.0	163.9	100.0	100.0
Under 18 years	13.0	57.4	43.5*	35.0
18–21	1.6	10.4	5.3	6.4
22–54	7.4	68.7	24.7	41.9
55–64	2.5	14.7	8.5	9.0
65 and over	5.4	12.6	18.0	7.7
Race				
Total	30.0	163.9	100.0	100.0
White	20.4	150.2	68.3	91.6
Nonwhite	9.5	13.7	31.7	8.4
Family status				
Total	30.0	163.9	100.0	100.0
Unrelated individuals	5.1	7.6	17.1	4.6
Family members	24.9	156.3	82.9	95.4
Head	6.1	42.8	20.3	26.1
Spouse	4.1	38.5	13.5	23.5
Other adult	2.1	17.7	7.2	10.8
Child under 18	12.6	57.3	42.0	35.0
Type of residence				
Total	30.0	163.9	100.0	100.0
Farm	2.5	8.5	8.2	5.2
Nonfarm	27.5	155.4	91.8	94.8
Rural	11.2	46.7	37.3	28.5
Urban	18.8	117.2	62.7	71.5

Source: Office of Economic Opportunity, unpublished tabulations from the Current Population Survey and draft report, "Dimensions of Poverty, 1964–1966."

The Poverty Living Standard

Any discussion of the poor must begin by defining those who are poor and those who are not. But it is obvious that any single standard or definition of poverty is arbitrary, and clearly subject to disagreement. The standard which this Commission has employed is the widely used poverty index, developed by the Social Security Administration. This index is based on the Department of Agriculture's measure of the cost of a temporary low-budget, nutritious diet for households of various sizes. The poverty index is simply this food budget multiplied by three to reflect the fact that food typically represents one-third of the expenses of a low-income family. The resulting figure is the minimum income needed to buy a subsistence level of goods and services; the 25 million people whose incomes fall below the index are poor, while those above it are, officially at least, nonpoor. According to this poverty index, in 1968 a nonfarm family of four required a minimum income of $3,553 per year, or $2.43 per person per day to meet its basic expenses. Table 1–2 shows the poverty index for families of various sizes in 1968.

TABLE 1–2. 1968 Poverty Thresholds

Family size	Poverty index	
	Nonfarm	Farm
1	$1,748	$1,487
2	2,262	1,904
3	2,774	2,352
4	3,553	3,034
5	4,188	3,577
6	4,706	4,021
7 or more	5,789	4,916

How a typical poverty income might be spent can be seen in Table 1–3, which shows the standard of living available to the poor compared with that of a moderate-income family in 1967. In that year the poverty budget was $3,410. A moderate family budget developed by the Bureau of Labor Statistics required an income of $7,836 per year, or $1,300 less than the median family income of $9,120 for nonfarm families of four. Neither budget makes allowance for any costs of employment or taxes paid.

TABLE 1–3. Monthly Budgets, Poor and Moderate-Income Urban Families of Four, 1967

Consumption item	Poor [a]	Moderate [b]
Total	$284	$653
Food	122	175
Housing	91 [c]	199 [d]
Transportation	6	77 [e]
Clothing and personal care	57	82
Medical care	–	40
Gifts and contributions	–	21
Life insurance	–	13
Other consumption (recreation, education, tobacco, etc.)	9	46

[a] Based on budgeted need for an AFDC family of four in Los Angeles, California.
[b] Moderate living standard defined by the Bureau of Labor Statistics for a family of four.
[c] Renter.
[d] Homeowner.
[e] Automobile owner.

Source: State of California, Assembly Committee on Social Welfare, *California Welfare: Legislative Program for Reform*, February 1969; and U.S. Department of Labor, Bureau of Labor Statistics, Bulletin No. 1570–5, *Three Standards of Living for an Urban Family of Four Persons, Spring, 1967.*

Clearly, the poor family must do without many of the things that families with an average income consider to be "necessities"—a car, an occasional dessert after meals, rugs, a bed for each family member, school supplies, or an occasional movie. Nothing can be budgeted for medical care or insurance.

This food budget requires more than a third of the poor family's income, but still allows only $1.00 a day for food per person. A family can buy a nutritionally adequate diet for this amount, using the Department of Agriculture's food plan, but it must eat considerably more beans, potatoes, flour and cereal products, and considerably less meat, eggs, fruits, and vegetables than the average family. Each member of the poor family may consume less than one-quarter pound of meat a day.

Unfortunately, the Department's food plan, the basis of the poverty index, is not very realistic. It is estimated that only about one-fourth of the families who spend that much for food actually have a nutritionally adequate diet.[3] The plan calls for skills in meal-planning and buying that are rare at any income level, and it requires extensive efforts by poor families to make the varied and appetizing meals which are ostensibly possible under the plan. Many of the poor lack common kitchen appliances. Moreover, the Department's plan assumes the shopper will buy in economical quantities and take advantage of special bargains, but this is particularly difficult for a poor family with inadequate storage and refrigeration facilities.

[3] U.S. Department of Agriculture, Consumer and Food Economics Division.

The poor family's budget has no provision for eating outside of the home. Any lunches bought by working members or school children will reduce funds available for eating at home, since few outside meals can be bought for the 33 cents per meal allotted to each family member. Many schools charge more than this for a Federally-subsidized lunch.

The poor family's budget provides only $91 a month for all housing costs—including rent, utilities, and household operation—for four persons. No allowance is included for the poor family to purchase household furnishings. In Head Start programs, for example, teachers found that many children never had eaten at a table. Thirty percent of families on welfare live in homes where each family member does not have a bed.[4] A comparative breakdown of the housing allotments for poor and moderate-income families appears in Table 1–4.

TABLE 1–4. Monthly Housing Budgets, Poor and Moderate-Income Urban Families of Four, 1967

Housing Expenditures	Poor	Moderate
Total	$91	$199
Shelter cost	67[a]	159[b]
Household furnishing	—	22
Household operations	12	18
Utilities	12	—

[a] Renter.
[b] Homeowner; includes utilities and allowance for lodging away from home.

Source: See Table 1–3.

The money allotted to transportation for a poor family would not cover even daily transportation for a worker. The moderate-income family not only has more money to spend on recreation, but its automobile permits it to take the children on inexpensive outings, while poor children rarely have access to any form of transportation. Thus, many poor children have never left their own neighborhoods.

[4] U.S. Department of Health, Education, and Welfare, National Center for Social Statistics, *1967 AFDC Study: Preliminary Report of Findings from Mail Questionnaire,* January 1969.

Clothing school children is a major problem in poor families. Many poor children wear hand-me-down clothes which they receive from relatives, neighbors, and even teachers. Some clothing may be purchased at second-hand stores. But many poor children have to go to school on rainy days with no boots or raincoats—or stay home.

The poor family has \$108 annually—about \$9 a month—to spend on "luxuries": reading matter, recreation, education, gifts and contributions, tobacco, alcohol. But it is likely that this money will be spent on necessities, supplementing the meager food, clothing, and housing allowances. There is no room in the budget for luxuries—or emergencies.

Technically, an income at the poverty level should enable families to purchase the bare necessities of life. Yet an itemized budget drawn at that level clearly falls short of adequacy. There are many items for which no money is budgeted, although those items may be needed. Funds for them can only come out of sums already allotted to the basic necessities of life. As one witness told the Commission, "I either eat good and smell bad, or smell good and don't eat." [5] When another witness was asked how he made ends meet, he simpy replied, "They don't meet." [6]

[5] Witness before Commission, Seattle, Washington.

[6] Witness before Commission, Quincy, Florida.

How the Poor Survive

Although the official poverty index level of income is inadequate, it has gained wide currency as a benchmark denoting the subsistence level of income. Yet many poor households have incomes well below that level. More than 70 percent of the poor families have incomes at least \$500 under the poverty level and nearly half are more than \$1,000 below the poverty line.[7] The total amount by which the income of the poor fell below the poverty standard was \$10.6 billion in 1966. This is 40 percent of the \$26.5 billion in total income the poor would have had if all of them were living at the poverty line.[8]

The fact that low-income households are able to survive at all despite incomes below the subsistence level suggests that many of them possess remarkable skills in stretching their incomes. Means of coping with inadequate incomes that have been cited in Commission field research include: skipping a rent payment or a utility bill—sometimes being evicted saves a month's rent; "borrowing" food from friends and relatives; and reliance on credit. "We don't pay the full price for food," one witness said, explaining, "we get credit on food and pay once a month. But we don't pay all of it, we just pay a portion of it." Who pays the rest? "He (the grocer) just carries it over to the next month." [9] Other witnesses told of disposing of possessions to meet current expenses. "We sold our home and sold everything we had. Had to. I always have to plan it out some way or find something around the place to sell or something." [10]

Food

Many poor families are not fed adequately. To keep families from going hungry, poor women often use great ingenuity to reduce their food

[7] U.S. Bureau of the Census, *Current Population Reports,* Series P-60, No. 54, "The Extent of Poverty in the United States 1959 to 1966," May 31, 1968, Table 15.

[8] U.S. Department of Health, Education, and Welfare, Office of the Assistant Secretary (Planning and Evaluation), *Poverty Status Tabulations, 1966.*

[9] Witness before Commission, Mississippi County, Arkansas.

[10] Witness before Commission, Jackson, Kentucky.

costs. They may buy at markets where day-old bread and damaged canned foods are sold at discounts. Many use cheaper dried milk despite their preference for liquid milk. They buy large amounts of inexpensive foods, like spaghetti and dried beans, that do not spoil and are nutritious. They use surplus commodities distributed by the Government when these goods are available to them, and Food Stamps when they can afford them. They may share transportation costs for shopping trips away from small neighborhood stores.

In spite of these efforts, the Department of Agriculture's 1965 Food Consumption Survey showed that 63 percent of households with incomes under $3,000 had inadequate diets.[11] The Commission heard first-hand evidence to this effect throughout the country:

> I have to cut corners and now I am cutting down the middle. I don't have any corners left to cut.[12]

> Maybe if I have four potatoes I will fry them and give them all to go around. Sometimes we don't eat. When the check comes I don't have maybe $3 left. With those $3 we have to eat. Sometimes we eat and sometimes we look at each other.[13]

> I don't have enough to buy food. That is the reason why I am sick today with high blood pressure, heart trouble, because I don't have money to buy the kind of food that I am supposed to have.[14]

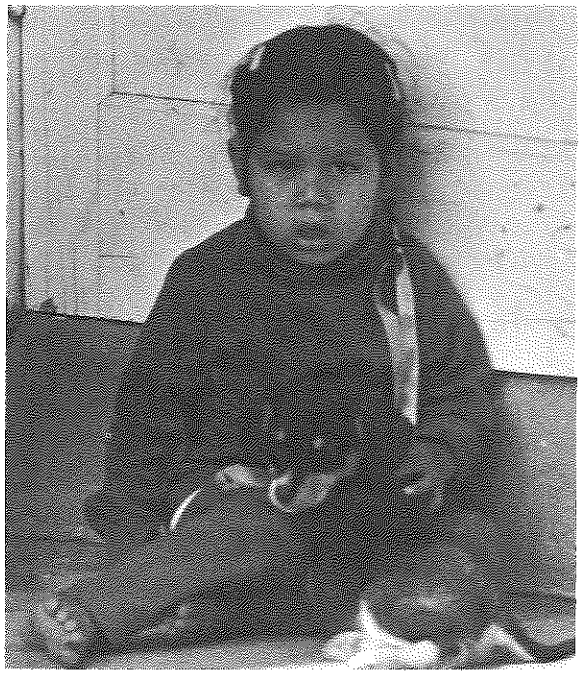
Medical Care

Because the poor often are isolated or without transportation, they have restricted access to proper medical attention. The care they do receive is often too late and of low quality. Yet the relative need for health care is greatest among those groups—infants, expectant mothers, and the elderly—which form a disproportionate share of the population in poverty.

Although the most advanced medical techniques in the world are available in the United States, the poor receive little advantage from them. For example, this country ranks thirteenth in the world in infant mortality and at least that low in maternal mortality. These relatively low rankings are explained in part by the uneven distribution of health services in the United States which results in a greater incidence of poor health among low-income groups.

Poor nutrition during pregnancy can hinder fetal brain development and increase the probability of premature birth. Protein deficiencies in early childhood can retard brain growth. This early damage—perhaps followed by frequent illness, further malnutrition, crowded and unsanitary living conditions—is exacerbated by lack of regular medical attention and may affect the adult's ability to obtain adequate employment. Health limitations are particularly likely to result in unemployment or underemployment among those whose skill levels are low, because jobs open to them are usually physically demanding.

The health problems of the poor are not invisible. The glazed eyes of children, legs that never grew straight, misshapen feet, sallow complexions,



[11] U.S. Department of Agriculture, *Dietary Levels of Households in the United States, Spring, 1965,* p. 8.

[12] Witness before Commission, St. Joseph, Louisiana.

[13] Witness before Commission, Tucson, Arizona.

[14] Witness before Commission, Tucson, Arizona.

lack-luster hair, are easily recognized by even an untrained observer. Other physical limitations, such as low energy levels, are quite real to poor children in school and adults trying to hold down jobs, but these limitations may be misconstrued by teachers and employers.

Most of the poor cannot afford private medical care and are not covered by insurance. And many cannot afford the transportation to free medical facilities, which are often miles and hours away. Or, there may be no medical charity—public or private—available to them. Their plight is suggested in incidents related to the Commission:

> It took me nine months . . . to get a man in the nursing home. He fell and broke his hip and injured his foot. He was ninety-two years old. When we finally got an opening . . . he (had) died because the foot had already become infected, gangreous, and it was too late.[15]

> I can't get a dentist appointment for my two children anywhere. "We do not take welfare patients"—and these (are) people that the Welfare recommended. As far as eyeglasses, I waited three months to have my son's eyes checked . . .[16]

> . . . a couple of weeks ago she (her daughter) fell again . . . I called the doctor and I said as I am holding her, bleeding in my arms, "I's bringing my daughter," and he said, "I'm going home to dinner early this evening. You will have to find somebody else." And I said, "I don't know how to get to find anybody else. I have no way." And he said, "Well, I guess you're just going to have to find a neighbor . . ."[17]

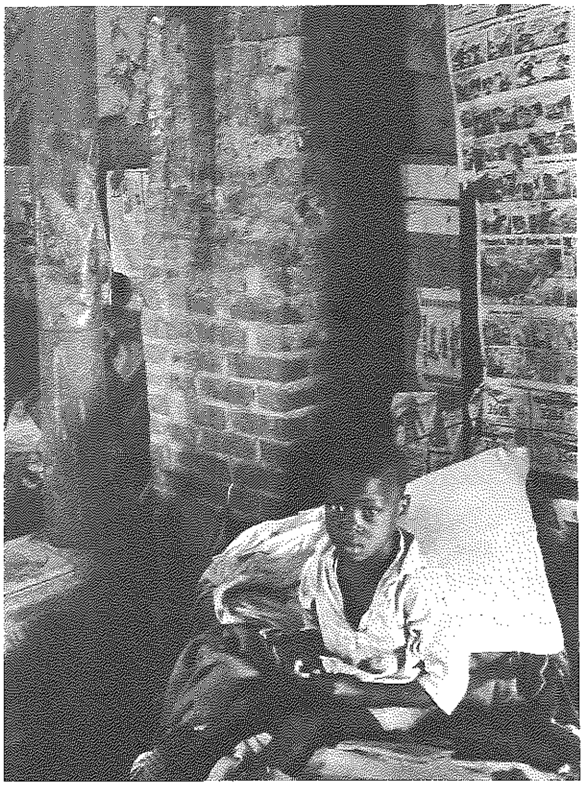
> I went in (to the County Hospital) and told the head nurse about it (his son hit by a car), she said, "Well, we can't take him." Of course he was in pain. His leg was just smashed all to pieces where the bumper hit him.[18]

> The only place we can refer for charity hospitalization is the University Medical Center in Little Rock (150 miles away). But even then, they are so crowded that the doctors always have to make prior appointments and make sure space is available.[19]

Housing

Millions of the poor live in substandard, squalid housing. The shanties and shacks found in rural areas often look like remnants from an earlier era. One rural resident who lives with her daughter and eight grandchildren in a small shack described her housing to the Commission:

> It is a four-room house and another little room out the house, and it rains into it. Have to get up at night and put a dishpan to keep the rain off the children. I told the owner. He told me I would have to have the house fixed up myself.[20]



[15] Witness before Commission, Breathitt County, Kentucky (community worker).

[16] Witness before Commission, Seattle, Washington.

[17] Witness before Commission, Seattle, Washington.

[18] Witness before Commission, Mississippi County, Arkansas.

[19] Witness before Commission, Mississippi County, Arkansas (County Welfare Director).

[20] Witness before Commission, St. Joseph, Louisiana.

The barrenness of housing of the urban poor sometimes is hidden behind the facade of ordinary looking row houses. Yet the interior may reveal serious decay—falling plaster, holes in the wall, gaps in window frames, rats and roaches, and deteriorated plumbing. One mother told the Commission:

> The house is in bad condition and every time it rains the water comes in. I've called public housing many times and they just tell you over the phone, "What am I to do about this?" And the roof leaks, and the water comes through the windows. This is a contaminated condition and a health hazard. My children get sore throats and they are sick all the time.[21]

The physical condition of the homes and neighborhoods in which the poor live and the crowding that often occurs have severe effects on health, as well as on social and behavioral patterns. The struggle to meet basic physical needs under depressing and frustrating living conditions undermines attempts to escape from poverty.

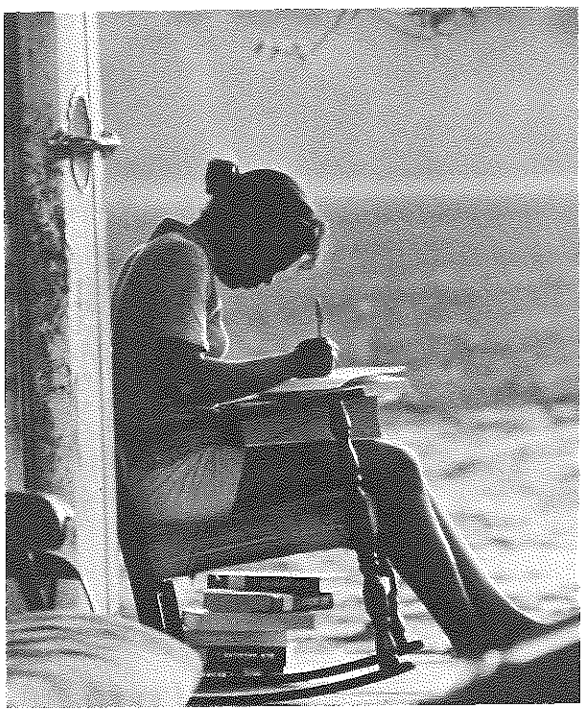
> The people have an apathy about cleaning a place that is about to fall down on their heads. Believe me, if you lived in a house that had a leaky roof, and the paper's off the wall, rats and roaches, no matter how you clean. The front steps fall down; the back steps fall down. Half the steps in the house are broken, the pipes leak, the toilet is broken. Well, I could mention anything else, but you get the general idea. Do you blame a person for not wanting to clean a place like this? [22]

The Quality of Life

A recent study of a group of AFDC families indicated that the surveyed families spent "five-eighths as much on food as the 'average' western United States family of the same size (five members), less than five-eighths as much on housing and related costs, one-sixth as much on clothing, one-eighth as much on transportation, one-ninth as much on consumer durables, and a barely discernable amount . . . on recreation, personal care, and other such pleasures that people find in life." [23]

In establishing the criteria for a *moderate* budget the Bureau of Labor Statistics assumes that "maintenance of health and social well-being, the nurture of children, and participation in community activities are both desirable and necessary social goals for all families." [24] The limitations inherent in the poverty budget make these goals unattainable for poor families. Although the poor family may not starve, and although it has a roof over its head, its lack of buying power in a world where expenditures are a part of all social relationships subjects the poor family to social, if not physical, starvation. A recent study of life patterns of welfare recipients pointed out that:

> To go to school costs money—books, notebooks, pencils, gym shoes, and ice cream with



[21] Witness before Commission, Philadelphia, Pennsylvania.

[22] Witness before Commission, Philadelphia, Pennsylvania.

[23] Gil Bonem and Philip Reno, "By Bread Alone, and Little Bread: Life on AFDC," *Social Work,* Vol. 13, No. 4, October 1968, p. 11.

[24] U.S. Department of Labor, Bureau of Labor Statistics, Bulletin No. 1570–5, *Three Standards of Living for an Urban Family of Four Persons, Spring 1967,* p. 1.

the other kids. Without these the child begins to be an outcast.

To go to church costs money—some Sunday clothes, carefare to get there, a little offering. Without these one cannot go.

To belong to the Boy Scouts costs money—uniforms, occasional dues, shared costs of a picnic. Without these, no Scouts.

To have friends into the house costs money—for a bit of food, a drink.

To visit relatives costs money—for travel, a gift for the kids. These people cannot afford to visit their relatives.

For a teen-ager to join his friends on the corner he must have some money—for a coke, a show.

How does a fellow take a girl out on a date without some money? And how does a girl pretty herself for a fellow without some money?

How do you join a club? Buy a book, a magazine, a newspaper?

Poverty settles like an impenetrable cell over the lives of the very poor, shutting them off from every social contact, killing the spirit, casting them out from the community of human life.[25]

It is clear both from research data, and from listening to the testimony of many poor Americans, that coping with such deprivation exerts severe personal strains on individuals and families. A resulting loss of physical and mental health exacts significant costs from all of society as well as the poor themselves.

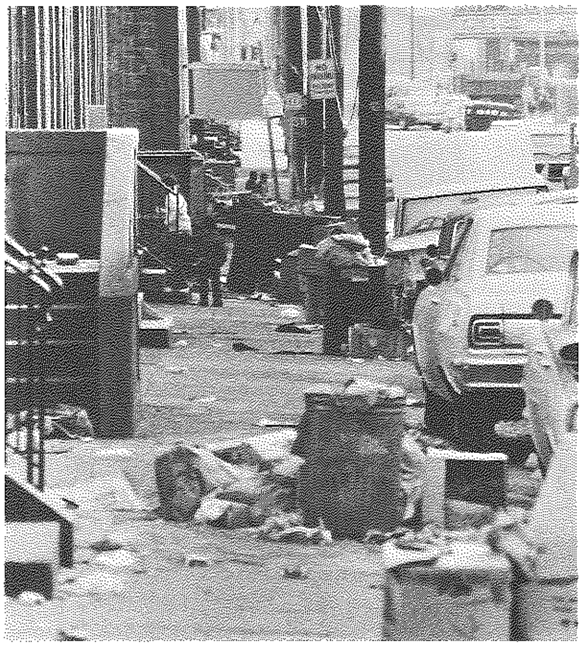
Almost every facet of daily life is affected by the interaction of low income and social isolation. Poor urban families pay higher food prices in neighborhood independent stores because there are few suburban-type chain stores in inner city areas. Low-income neighborhoods frequently do not receive city services considered routine in most neighborhoods. In poor neighborhoods we have seen overflowing garbage pails resulting in garbage-strewn streets, while in affluent areas of the same city garbage is picked up regularly. Many low-income neighborhoods are poorly protected against crime. There are severe barriers to educational and occupational achievement:

. . . you have the situation where one member of the family is in school today and the other member isn't: and when one asks, "where is your brother today?" (he is told) "It's not his turn to wear the shoes today." [26]

I keep one of them (her six children) to stay home (to babysit while she works). I figure it's bad but it's the only way for me to make a living. I keep one out; that is the only way I have to do it.[27]

Students from schools in low-income areas are often poorly educated and unprepared for adequate employment. Moreover, many suitable job opportunities are located in areas remote from the inner city and are, therefore, inaccessible to many ghetto residents.

The social problems of the urban slum intrude on family life. Parental control of children is challenged by powerful influences outside the family. The dangers of juvenile delinquency, alcoholism, drug addiction, and premarital pregnancy are real



[25] Charles N. Lebeaux, "Life on ADC in Detroit 1963," *National Association of Social Workers Newsletter,* March 1964.

[26] Witness before Commission, Manchester, New Hampshire (Mayor).

[27] Witness before Commission, Quincy, Florida.

and frightening. A great proportion of crime affects the meager possessions and physical safety of the poorest in our cities.

It is often difficult even for middle-class residents of middle-class communities to escape the neighborhood's influence on themselves and on their children. How much more difficult it is for the urban poor.

> (My daughter asked) "Why is all them doctors out in the hallway?" I said, "Doctors?" She said, "Yeah, they all got needles in their hands." . . . there's junkies, dope addicts, and the rats—don't mention them. They are going hungry now because I ain't got no food.[28]

The rural poor may be safe from some of the hazards of urban slum life, but being poor in rural America imposes severe isolation. Public transportation is virtually nonexistent, and automobiles are expensive. Few public services of high quality are available. Rural educational institutions are generally inferior and have few resources. Many counties have no physicians or hospitals. Recreational facilities are meager.

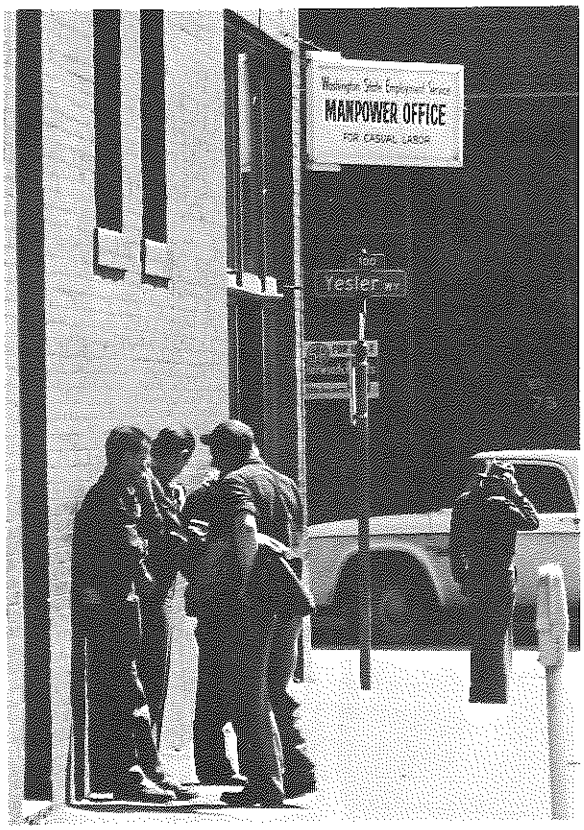
Conclusion

The poor inhabit a different world than the affluent, primarily because they lack money. Often they live an isolated existence in rural and urban pockets of poverty. But most of the poor do not live apart from the larger society in terms of their hopes and aspirations. Through television, magazines, and newspapers, they become aware of what others have. Their aspirations for education and achievement often differ from those of the middle class only in the possibility for realization:

> And I want to say someone ought to start doing something to show that there is emotion in disadvantaged people. They bleed like anybody else. It is not distant and strange. They do bleed. They might not get enough to eat and might not get enough sleep but they do these things. They think that you are born distant, you have no feelings, that you were born to tear up, burn up, corrupt and whatever. You have to stop telling him, gee, I know you feel bad, look at your house, look at the holes in your shoes, and things of this sort. Showing a man how really down he is, is not going to help him.[29]

> You know when you have a bunch of kids out here and don't have a steady job, just part-time, you think about them. You look around at yourself when the bills start coming in and the children want to eat and need clothes to wear to go to school. You can imagine how you feel.[30]

The poor are living poorly and are aware of it. They are generally unhappy with their circumstances and would like to be unpoor. Many Americans wonder why the poor do not escape from poverty. The answer to this question is clear to us: They usually cannot, because most are already doing as much as can reasonably be expected of them to change their conditions.



[28] Witness before Commission, New York City, New York.

[29] Witness before Commission, Denver, Colorado.

[30] Witness before Commission, St. Joseph, Louisiana.

Chapter 2
The Potential of the Poor

Why They Remain Poor

The paradox of poverty in the midst of plenty causes many to ask why some people remain poor when so many of their fellow Americans have successfully joined the ranks of the affluent. It is often assumed that anyone who wishes to live well can achieve that objective by seeking and accepting work. It is often argued that the poor are to blame for their own circumstances and should be expected to lift themselves from poverty.

The Commission has concluded that these assertions are incorrect. Our economic and social structure virtually guarantees poverty for millions of Americans. Unemployment and underemployment are basic facts of American life. The risks of poverty are common to millions more who depend on earnings for their income. We all grow old. We all can fall victim to unemployment caused by technological change or industrial relocation. Any of us could become sick or disabled. And becoming unpoor is extraordinarily difficult. What does a disabled man, an elderly couple, or a child *do* to escape poverty? How does a woman with six children survive while she is hunting work or being trained? How does an unskilled, middle-aged laborer adjust to the loss of a job?

The simple fact is that most of the poor remain poor because access to income through work is currently beyond their reach.

The Aged

Old age is usually a period of nonemployment. Society neither expects nor assists the aged to work. Retirement at age 65 is common in both industry and government, and discrimination in hiring against the aged and aging is common among employers.

The aged possess limited earning potential. They generally are expected to live on pensions, savings, and Social Security benefits. Too frequently, savings and pensions deemed adequate at an earlier time become insufficient as inflation raises the cost of living. Millions of hardworking Americans, accustomed all their lives to

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paying their way, find themselves becoming unalterably and unavoidably poor in old age.

In 1966, 6.4 million aged persons and their dependents were in poverty. Over a million of these persons lived in families where the family head worked for at least part of the year, and almost half a million lived in families where the head worked 50-52 weeks. The average family income was more than $600 below the poverty line; this gap was about equal for low-income aged families whether the head worked or not. Average family income for poor households headed by the aged was below $1,200.[1]

In 1966, 65 percent of the aged were over 70. Half of those over age 65 were 73 or older. The older a person is in the aged population, the less his total income is likely to be. Earning opportunities decline because advancing age often brings increasing infirmity. Moreover, the older a person is, the greater the likelihood that he has not earned high Social Security benefits or accumulated benefits in one of the newer private pension plans, and that he has exhausted his assets.

The poor will remain poor once they retire, and others who retire may become poor in their old age. Opportunities for the aged poor to make any improvement in their own lives are remote and unrealistic. Only public programs can make a difference in their incomes.

The Nonaged

While the aged apparently can do little about their poverty, what about the 24.6 million *nonaged* persons who were poor in 1966? Six percent of these people were in families headed by aged poor persons, so their poverty can be linked to the elderly family heads on whom they depended. What possibilities do the remaining nonaged persons have to escape poverty through their own efforts? The unpleasant truth is that these possibilities are extraordinarly limited.

[1] U.S. Department of Health, Education, and Welfare, Office of the Assistant Secretary (Planning and Evaluation), *Poverty Status Tabulations, 1966.*

Work Experience

The work experience of the 4.5 million nonaged heads of poor families provides dramatic documentation of their limited ability to change substantially their circumstances on their own. In all, the heads of 1.9 million poor families—42 percent of the total—worked full-time for more than 40 weeks of the year. Most of the remaining heads of families did some work.

- Of the 4.5 million nonaged heads of poor families, 3.3 million or 73 percent worked for some period of time during 1966; 1.2 million did not work at all.
- Of the 3.3 million who worked, nearly 60 percent worked full-time for most of the year. The rest worked either less than 40 weeks a year or less than 35 hours a week, because of illness, family responsibilities, inability to find sufficient work, or other reasons.

Table 2–1 summarizes the work experience of poor nonaged family heads and unrelated individuals for 1966. More than 70 percent of the nonaged heads of poor families worked for some period, yet remained in poverty. The Commission considers the fact that 42 percent of the nonaged heads of poor families worked full-time for most of the year to be as significant in understanding poverty as the fact that 58 percent worked less than that, or did not work at all.

The different degrees of participation in the labor force among the poor seem due to chance more than to motivation or other factors. Unemployment or underemployment among the poor are often due to forces that cannot be controlled by the poor themselves. There are not two distinct categories of poor—those who can work and those who can not. Nor can the poor be divided into those who will work and those who will not. For many, the desire to work is strong, but the opportunities are not readily available. The opening or closing of a factory, ill health of the breadwinner, inability to find transportation, loss of a babysitter, weather conditions, and similar factors greatly affect employment opportunities.

Of the 1.2 million poor nonaged family heads who did not work at all in 1966:

- Nearly half were women with responsibilities for young children.
- Another third were unable to perform any work because of illness or disability.
- Of the remaining 230,000, 40 percent were unable to work because they were attending school, and about 15 percent reported that they were simply unable to find any work.

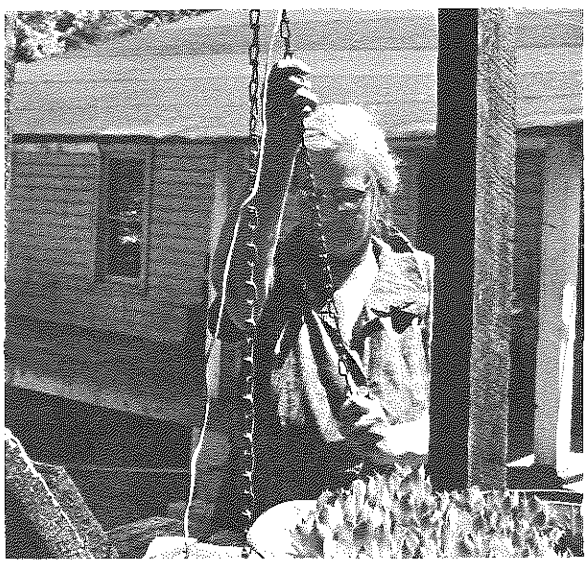
TABLE 2-1. Work Experience of Poor Nonaged Family Heads and Unrelated Individuals, by Sex, 1966[a]

[In millions]

Work experience of head	Families		Unrelated individuals	
	Male head	Female head	Male	Female
Total	2.9	1.6	.7	1.4
Worked in 1966	2.4	.8	.5	.8
40 weeks or more	1.8	.4	.2	.4
Full-time	1.6	.3	.2	.3
Part-time	.2	.1	.1	.1
Less than 40 weeks	.6	.4	.3	.4
Full-time	.5	.3	.2	.2
Part-time	.2	.2	.1	.2
Did not work in 1966	.5	.7	.2	.6
Ill, disabled	.3	.1	.1	.2
Couldn't find work	*	*	*	*
Other reasons	.2	.6	.1	.4
In school	.1	*	*	*
Housekeeping	*	.6	*	.3
All others	.1	*	*	*

[a] Civilian noninstitutional population.
*Less than 50,000. Columns do not add to totals due to rounding.

Source: Special Census Bureau tabulations from the Current Population Survey for the Office of Economic Opportunity.



- A residual group of about 100,000 remains. It includes those who did not work at all during the year for reasons other than those listed.

Thus, less than three percent of the nonaged heads of poor families might have freely chosen not to work at all. But many in this residual group actually may have had little choice between work and poverty. For example, many poor individuals do not work because of disabilities which ordinarily are not recognized in official statistics, particularly disabilities of a mental, rather than a physical nature.

Factors Inhibiting Progress

Clearly, the experience of the poor indicates that work alone is no guarantee of escaping poverty. Why is it that employment—the basic source of income for most Americans—fails the poor?

Several factors account for this. Family size is relevant; the costs of supporting a large number of children can result in poverty for workers with even relatively high earnings. Low wages and/or lack of sufficient hours and weeks of work can account for a good deal of poverty. Disabilities prevent many from working. Poor preparation for working careers and discrimination affect many others. And, for large numbers of people, work is simply not available. Let us examine the impact of these factors more closely.

An Economy at Less than 100 Percent Employment

There is some unemployment even in the best of times, and it is not evenly distributed over the economy. A desire to avoid accelerating inflation has led policymakers to accept some unemployment. But it must be recognized that this policy has much to do with explaining poverty for many families. A 4 percent unemployment rate—considered by many to be the lowest feasible, long-term unemployment rate—means that not everyone can work who wants to work. It also means that wages will be lower than they would be if there were greater competition for workers. It means that young people without

work experience, people with low educational attainments, and members of minority groups subject to discrimination will be particularly handicapped in their search for employment. Moreover, official unemployment statistics do not reflect the number of persons who have withdrawn completely from the labor force because of long-term inability to find jobs.

Obviously, the state of the American economy and the consequent structure of opportunities at the local level can enhance or impede employability greatly. A fully employed person, earning good wages one day, can find himself suddenly unemployed and locally unemployable due to a work force reduction or plant closing. In the absence of strong aggregate demand, even well-planned efforts to find jobs can be ineffective.

> We were very much concerned with the fact that young people wanted to work and needed jobs; 2,782 screened applicants were approved. My Committee had a task of contacting private employers to try to develop jobs. We contacted all of the churches of the communities; we contacted approximately 350 private employers. We had the Governor of the State of Iowa coming in to kick it off by announcement. We had good radio, local press, and television coverage. We sent out a letter signed by the mayors of three central cities inviting people to get involved. The end result was that we got nine job offers. The amount of money that we realized from the nine jobs wouldn't pay for the postage and printing costs.[2]

The demand for labor also will affect the outcome of training programs. Many witnesses at Commission hearings expressed frustration at going through training programs which were not geared to jobs currently available or to the skills of the trainees.

> For instance, the Job Opportunity Center which was very effective, listened to some technician who had no feeling for the programs at all and trained 40 teacher's aides. But nobody alerted the school board or got any consideration from them as to whether they would hire them. So these people are right back on the streets where they are more frustrated than ever because they know now that they have some training.[3]

> The program put me into them (three different types of training for jobs.) What I was wondering is if they could put somebody in there who has been through the mill like I have and talk to the people, tell them what kind of a job they could get and what they would like . . . Because they sent me to Lowrey Field for sheet metal. Well, they say it pays pretty good but it takes four years to learn the trade and then $400 to join the union. And then you have to know too much math and algebra and all that.[4]

> I have been trained . . . I was trained with my cane (for the blind). Training people for what, for sitting in the corner? They have given me the training of a king or queen and today I still sit in my corner with my knitting in my hand. . . I have been trained to take dictaphone dictation and I have been trained to do answering services and I have been trained to do sewing . . . And what am I doing today? Sitting in my corner, waiting for the world to call me a leech. I am not willing to give any more time for any more training, thank you.[5]

> Well . . . back in 1965, I went to the Bureau of Indian Affairs school . . . and they accepted me and I received my training in Chicago. The trouble was that I went out for welding and somehow when I got up there they had me down as a barber. (After completing barbering courses and finally receiving training as a welder) I tried to get a job and they throw the bit up to me about "Do you have any tools?" or "Do you have any experience?" And I said no. And I can't get no job, they won't hire me. I might as well go out and dig a ditch for Tom or Joe . . . because I am sick and tried of going to trade school.[6]

[2] Witness before Commission, Waterloo, Iowa.

[3] Witness before Commission, Denver, Colorado.

[4] Witness before Commission, Denver, Colorado.

[5] Witness before Commission, Albuquerque, New Mexico.

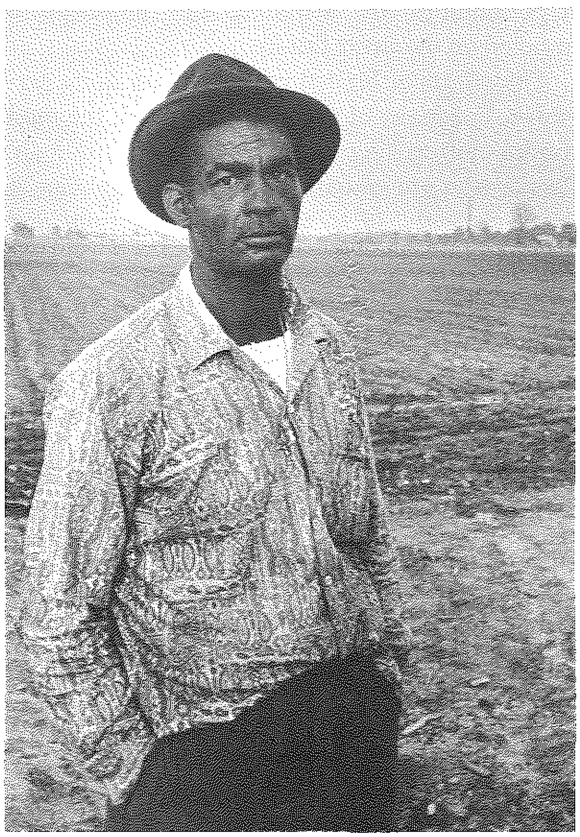
[6] Witnesses before Commission, Isleta Indian Pueblo, near Albuquerque, New Mexico.

The whole system is bad . . . you start them on training full of hope and what guarantee? What job is there after the end of that training? Nothing but a waiting list.[7]

People are training for the jobs that they originally were hopeful of getting. But the problem has been that we haven't been able to locate them a job with industry because of the fact, as you probably are aware by now, there are no jobs in Albuquerque, New Mexico.[8]

When there are no jobs for the head of the family, then other members of the family may have to help support the family. One witness told the Commission:

A poor family cannot put his child to work according to age, he puts him to work according to the needs of his family.[9]



[7] Witness before Commission, Los Angeles, California.
[8] Witness before Commission, Albuquerque, New Mexico (director of a training program).
[9] Witness before Commission, Quincy, Florida.

In 1966 at least 160,000 male family heads were forced to work less than they desired because of an inability to find more steady employment. More than a million others were working part-time hours at low-paying marginal tasks.

One witness heard by the Commission, for example, spends part of the year raising cotton on a ten-acre plot in return for a share of the product. After paying all the costs associated with raising the crop, his net income from sharecropping is $400 annually. In addition, he earns $5.00 daily as a tractor operator when that work is available. During the winter, he sells firewood to supplement his income. He testified:

Nine people live off of it. Just figure how could you do it with nine people; just one biscuit a day. A man with $5.00 can hardly cover that. And I only receive that through the summer. Winter time there ain't nothing to do. They give us a little something to do around and pay up what we owe; you don't get through paying what you owe. And if there were something to do, I would sure appreciate doing it. I wouldn't back off from no work.[10]

Low Earnings

Full-time employment at the current Federal minimum wage of $1.60 an hour will provide a family of four or more with an annual income below the poverty line. In 1966, 3.1 million men working full-time, two-thirds of whom were family heads, earned less than $1.60 an hour. In 1967, almost half of the Nation's labor force was employed in occupations or industries not covered by the minimum wage provisions of the Fair Labor Standards Act. Many of the families of such workers are poor.

The sources of low wages can be found on both the demand and the supply sides of the labor market. The spread of complex automated industrial technology continually reduces the relative demand for workers in low-skilled occupations. Emigration from the agricultural sector, the

[10] Witness before Commission, St. Joseph, Louisiana.

growing number of youth, and increased participation of middle-aged women in the labor force add to the supply of low-wage job candidates.

In certain instances, however, low earnings reflect a breakdown in the market itself, either because of immobility of labor and capital resources or because of discrimination in hiring. There is overwhelming evidence that the employment opportunities of nonwhite workers and female workers are more limited in number and lower in quality than those open to white male workers.

The fact that so many workers accept employment at very low wages indicates the basic strength of the work ethic in the economy. Although their jobs are often unpleasant and physically demanding, many workers have remained ready and willing to work for wages which cannot keep their families out of poverty.

Large Families

Large families need substantial incomes just to avoid poverty. According to the Social Security Administration's poverty index for 1968, a nonfarm family composed of two parents and five children would need at least $5,789 to maintain even the most basic standard of living. If the head worked full-time year-round, he would have to earn nearly $3.00 per hour to achieve this target. In 1966 over 40 percent of the poor families with children headed by employed men under age 65 had more than three children to support. With an average family size of 4.6 persons, many working family heads are financially handicapped even when earning a relatively good annual income.

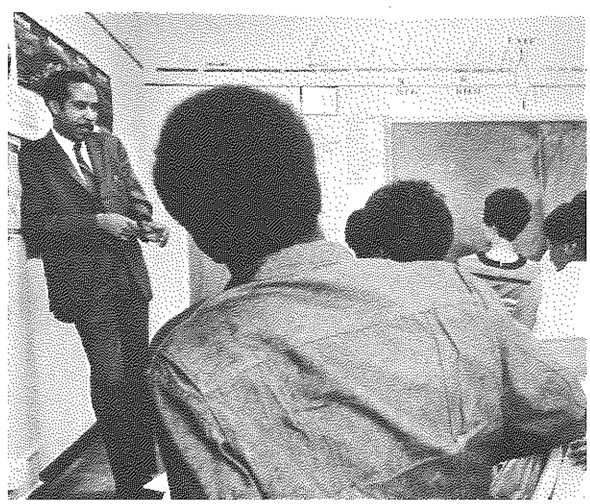
Poverty and Education

The association between education and income is a familiar one. Formal education not only enhances the quality of one's life, it also pays a high dividend in material rewards. Those with little education are at a disadvantage in the labor market. The heads of nearly three-quarters of all poor families in 1966 did not graduate from high school. Indeed, nearly one in five of the poor nonaged male and female family heads had completed less than six years of formal schooling—a level barely above functional illiteracy.

Limited education does not guarantee a life of poverty, but the income distribution is highly skewed in favor of the more educated. One fourth of those with less than eight years of schooling earned less than $3,000 while only 6 percent of high school graduates had earnings that low. In 1967, the median income of families whose heads had completed less than eight years of schooling was about one-third that of families headed by college graduates. The gap between their median incomes was about $8,000.[11]

With a high proportion of the poor uneducated, it is unrealistic to expect great upward mobility in terms of income. Those with low education levels receive the low-paying jobs that offer little opportunity for advancement. Once family responsibilities are acquired, this handicap is imposed on the entire family.

The effects of limited education are quite pervasive. For many of the undereducated, the most routine job-seeking activities may be difficult. People who are embarrassed by their inability to speak correctly, or to understand questions and the reasons behind them, or to fill out detailed forms quickly, or to grasp instructions, are particularly disadvantaged in securing a job. When a



[11] U.S. Bureau of the Census, *Current Population Reports*, Series P–60, No. 59, "Income in 1967 of Families in the United States," April 18, 1969, Table 14.

job opportunity is extended some of the uneducated do not take it because of their conviction that they cannot compete effectively. At an earlier point in our economic history, brawn and willingness to work would have been sufficient, but increasingly even menial jobs require high school diplomas. Many persons have been left out of the job market, not because they cannot do the work, but because employers would rather hire "over-educated" workers. One able-bodied male who did heavy manual farm work during the season testified that he could not move to the city and do more steady factory work because "Most jobs like that won't hire a guy without an education (who) can't fill out a form." [12]

Poverty and Location

Two-thirds of the poor lived in urban areas in 1966. However, the risk of being poor was greater for those who resided in rural areas, whether they lived on or off the farm. Almost 20 percent of the rural population was poor, compared with about 14 percent for the urban population. Opportunities for earning are fewer in rural than urban areas, and work is more often seasonal.

The poor are somewhat concentrated geographically. Twenty percent of Southern families were poor in 1966, while only 9 percent of non-Southern families were poor. Half of all poor families lived in the South. Although nearly two-thirds of all poor nonwhite families lived in the South in 1966, Southern poverty was by no means confined to nonwhites. Close to 2 million white families—42 percent of all poor white families—were residents of Southern States. The conditions that are conducive to poverty—low wages, low average education, seasonal employment, and declining opportunities for the unskilled—are especially prevalent in the South. These factors cross racial lines, although nonwhites are particularly affected.

Another focal point for poverty is the inner core of major cities, from which it is often difficult, time consuming, and expensive to reach well-paying jobs in outlying areas.

> We have one new employer who will employ 1600 people. A great many of these women will be trained by the employer. It is not essential that they have previous experience. But there is no transportation to this particular employer's place of business.[13]
>
> In your core city, the jobs that are available will not pay a sustaining wage. They run from 80 cents per hour probably up to $1.30. A person who has a family to support cannot do it on this wage scale . . . Another thing is that jobs that do pay a sustaining wage are located in your suburban areas. There is no way of getting transportation to get to them. Transportation in Denver is inadequate. They don't run adequate buses to job sites. Most of the people don't have cars.[14]

In many American cities, the story is the same: There are no jobs where the poor live, the poor cannot afford—or are not allowed—to live where the jobs are opening up, and there is no transportation between these two places.

[12] Witness before Commission, Mississippi County, Arkansas.

[13] Witness before Commission, Atlanta, Georgia.

[14] Witness before Commission, Denver, Colorado.

Poverty and the Female-Headed Family

The employment opportunities for women heading poor families are more limited than those for men. Because of their family responsibilities, women may be severely restricted from holding down even a part-time job. One in every two women heading poor families did not work in 1966.

Getting and keeping a job imposes certain conditions that are especially burdensome for women heading poor families. Working requires either that all children be old enough to care for themselves or that some day care provisions be made for the children. There are few such facilities available, even for those who can afford to pay. Many women heading families with children can work only at the expense of their family responsibilities.

> I would like to state . . . that I do have a high school education; I have one year of college. I have ten years working experience behind me. The reason I am not employed at the present and am having to take AFDC is because of inadequate child care for my children.[15]

Many of the jobs available do not pay enough to cover the cost of child care and other employment expenses. Jobs for which the majority of female heads of households qualify are at the lower end of the pay scale. In 1966 almost 50 percent of all employed white women heading poor families and 75 percent of nonwhite women heading poor families worked in service occupations, one of the lowest paid groups. For many such women, Public Assistance offers a more secure existence. It has been estimated that 70 percent of mothers receiving Aid to Families with Dependent Children could not earn more money by working than they receive in assistance payments because of their low skill and educational levels.[16] One witness told the Commission:

> I said that I was a New Careerist in the CEP, Concentrated Employment Program. I earn \$1.60 an hour and I take home \$242.22 every month for the support of myself and three children. My rent is \$75 a month. The cost of my being employed far exceeds my income . . . By this I mean that it would be to my advantage to be on welfare. I am one of those people that are motivated, but is it worth it? I sometimes wonder.[17]

Discrimination and Poverty

At first glance it seems that poverty is a white problem—two-thirds of the poor are white, while one-third are nonwhite. However, 12 percent of the white population is poor while over 40 percent of the much smaller nonwhite population is poor.

The greater incidence of poverty among nonwhites reflects several factors: larger family size, lower average earnings, a greater proportion of female-headed families, lower educational levels, and the greater proportion of nonwhites living in the South. Yet, holding each of these factors constant and comparing across racial lines, nonwhites remain at a disadvantage.

Much of this differential is a result of direct or indirect discrimination. Many employers still are unwilling to hire members of minority groups. Others will employ them only in the most menial jobs. Some minority group members find themselves unable to compete for jobs because discrimination in public programs has provided them with inferior education or training.

> Our (Negro high) school is not up to the (white) standard. I remember a few days ago I visited our school and to my surprise—and this has been existing for several years—there were five classes in the gym going on at the same time, and one of these classes was a music class.[18]

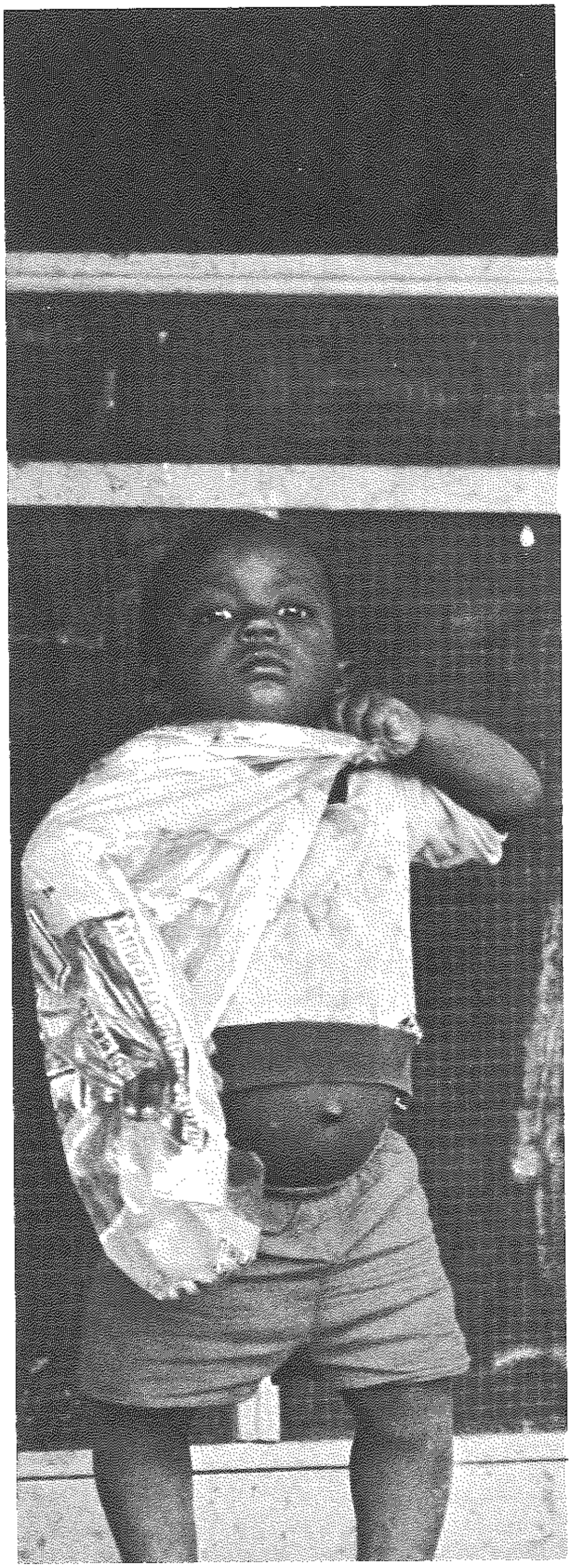
> My check will run about \$120 and his (a white) will run two something . . . He prob-

[15] Witness before Commission, Seattle, Washington.

[16] U.S. Department of Health, Education, and Welfare, Office of the Assistant Secretary (Program Coordination), *Income and Benefit Programs,* October 1966, p. 58.

[17] Witness before Commission, Albuquerque, New Mexico.

[18] Witness before Commission, St. Joseph, Louisiana.



ably might be cleaning up. He is not doing the type of (heavy) work that I am doing.[19]

Ability testing is done in English. I would like to take all these English-speaking teachers and give them a test in Spanish and see how their ability is going to run. Terminology and pictures with which the child is not familiar are used. The Puerto Ricans have never seen a sleigh, because we never had snow.[20]

Mobility Among the Poor

The little that is known about changes in income status over time is not heartening. Poverty persists in families headed by year-round, full-time workers. It persists in multiple-earner families. And it persists, to varying degrees, among the aged and nonaged, among families headed by men and women, and among blacks and whites.

Between 1965 and 1966, the number of households classified as poor declined by almost 3 percent. This net change, however, obscures considerable movement of households into and out of poverty. Some 36 percent of those households classified as poor in 1965 had, for one reason or another, left poverty by 1966. Of those classified as poor in 1966, 34 percent were not poor in the previous year. These flows indicate that the risk of poverty is considerably more pervasive than has been imagined.

Finally, the 64 percent remaining in poverty were disproportionately comprised of nonwhites, female-headed families, those in the South, and those families headed by a person with less than a high school education. For these groups, poverty is not a way station, it is a dead end.

Determinants of Poverty Flows

A move across the poverty line—in either direction—can be the consequence of a variety of uncontrollable changes in the household's circumstances. The addition or loss of an earner, a change in the size or composition of the family, a fluctuation in the wage level or hours worked

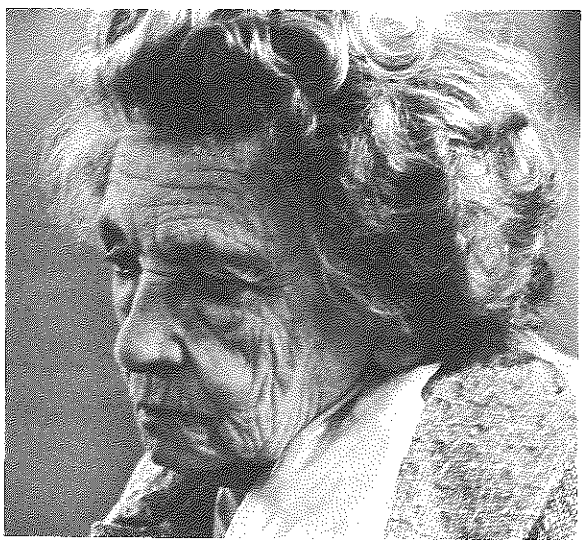
[19] Witness before Commission, St. Joseph, Louisiana.

[20] Witness before a Commission, Philadelphia, Pennsylvania.

by family members—all bear heavily on the probability that a family will experience a change in its economic status. Certain influences, however, stand out in bold relief.

Work, when available, can contribute significantly to a family's success in avoiding poverty. Over the 1965–1966 period, the rate of escape from poverty for families headed by a full-year worker was nearly twice as large as that for families whose head worked part-year or not at all. Conversely, the rate of entrance into poverty for the latter group was over seven times that of the former. The greater the amount of time the head spent working, the more likely the family was to have left or not to have entered poverty. This was true for whites and nonwhites, for male and female-headed families, and for the young and old. Indeed, in almost every conceivable comparison, those who worked fared better than those who did not.

More striking than the recorded successes are the failures. Of those families classified as poor in 1965 which were headed by a full-time, year-round worker, 43 percent failed to escape poverty during the following year. In terms of absolute numbers there were nearly as many families leaving poverty whose heads worked less than 48 weeks as families whose heads worked 48 or more weeks. Clearly, work alone is no guarantee of leaving poverty.



Extent of Income Mobility

Despite the way statistical indices are often used, poverty is not an either/or state. There are shades of poverty just as there are shades of wealth. This distinction is particularly important in discussing movements across a fixed poverty line. A person whose income is slightly below the poverty line can statistically move out of poverty by increasing his income by a small amount, but his standard of living will remain unchanged and he still will feel poor.

Of those persons who moved out of poverty between 1965 and 1966, a large number did not move far: one-eighth remained within $200 of the poverty line and one-quarter remained within $500 of the poverty line. For families such as these, it might be questioned whether the recorded change was significant. Of those falling into poverty, almost one-fifth fell less than $200 below the line and nearly half were within $500 of the line. Thus much of the movement into and out of poverty is really movement close to the line.[21]

Conclusion

The persistence of poverty and the extensive movements into and out of poverty testify to the fact that problems of income inadequacy and income insecurity are common to large segments of the population. Age and disability, loss of employment for technological or personal reasons, large family size, and poorly paid employment, pose potential risks to all who depend on wages. And, in our society, 80 percent of the population receive the major portion of their income from wages. The wage earner's income is highly vulnerable to the chance circumstances of life. Few families, for example, could weather long-term illness of the earner without serious financial problems, even if they possessed savings, health insurance, or accumulated sick leave. Few families could afford the retraining of a laid-off primary

[21] Unpublished tabulations from Current Population Surveys, 1965 and 1966.

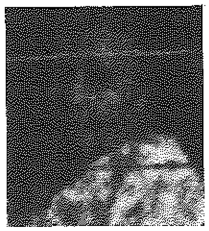
worker without great difficulty. The living standard of most families would be seriously jeopardized, and some would become poor.

For most of those who are currently poor, changes in economic status are largely beyond their control. Generally, they are doing what they can considering their age, health status, social circumstances, location, education, and opportunities for employment. Poverty is not a chosen way of life. Both the statistical data and personal observations by members of this Commission have made it clear to us that most of the poor are poor because affluence is beyond their grasp. The aged poor have made their contribution as workers and now many are dependent on inadequate retirement incomes. The disabled are similarly handicapped. The working poor are attempting to be productive and still are poor.

With so many working at jobs that are both unpleasant and financially unrewarding, one wonders how the stereotype of the malingering poor can be sustained. It is wrong that so much attention is focused on the few laggards. Among the poor are a small number who will be very successful in escaping from poverty on their own, and a majority who will work hard but remain poor. Very few of those capable of self-help seem to be doing nothing.

For the bulk of the poor, both young and old, unemployed and working, urban and rural, there are few bootstraps available by which they can pull themselves out of poverty. As individuals, some of our poor fellow citizens can overcome the limitations imposed by chronic significant levels of unemployment and underemployment, various forms of discrimination, and an opportunity system which—while perhaps unparalleled in the world—needs to be improved. But as a group they cannot. Society must aid them or they will remain poor.

Chapter 3
The View Ahead



The Future of Poverty

Getting ahead on a poverty income and becoming unpoor are problems whose solutions lie beyond the powers of most of the poor. They are also problems for which the formulation of meaningful and appropriate long-range solutions requires an undistorted view of the nature of poverty and of the Nation's economic system. Yet in many discussions of these topics, there are often implicit, unexamined assumptions and beliefs which must be questioned.

- The Commission is concerned about the widespread belief that poverty will simply fade away. Will the enormous productivity and potential for growth of the American industrial system lead, inevitably, to the disappearance of poverty?
- The Commission is also concerned about the notion that poverty can be defined and dealt with as a fixed and timeless absolute concept. What does an absolute definition of poverty mean in an era of growing prosperity? Is it possible to grasp and to deal with the problems of *American* poverty without considering relative poverty and deprivation?

These questions must be asked even if final answers are not forthcoming immediately. Raising these questions gives us a better view of what is. Answering them will give us a better vision of what ought to be.

The Recent Decline in Poverty

During the 1960's the number of poor persons decreased sharply. From 1960 through 1968, the number of persons in poverty dropped from 39.9 to 25.4 million and the percentage of the population in poverty fell from 22 percent to 13 percent. This rate of decline can give rise to two misleading and dangerous views: that poverty

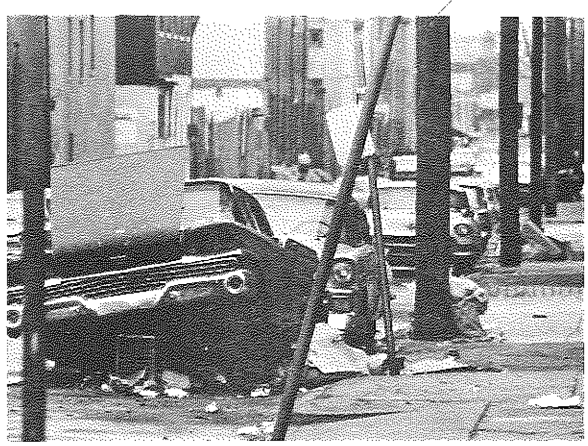
TABLE 3-11. Poor Households, 1961, 1966, and 1974 (Projected) by Age, Family Status, and Sex of Family Head

Household Characteristic	Number of households (in thousands)			Average annual percent change	
	1961	1966	1974	1961–66	1966–74
Total	12,881	10,826	8,816	−3.4%	−2.5%
Nonaged households	8,360	6,591	3,936	−4.6	−6.2
Families	6,149	4,476	2,463	−6.2	−7.3
Male-headed	4,579	2,900	1,210	−9.0	−10.3
White	3,416	2,102	833	−9.5	−10.8
Worked	3,005	1,740	610	−10.7	−12.0
Didn't work	411	362	223	−2.5	−5.9
Nonwhite	1,163	797	377	−7.5	−8.9
Worked	1,060	691	282	−8.4	−10.5
Didn't work	103	106	95	+0.6	−1.4
Female-headed	1,570	1,576	1,253	*	−2.8
White	939	934	751	−0.1	−2.7
Worked	451	460	301	+0.4	−5.2
Didn't work	488	474	450	−0.6	−0.7
Nonwhite	631	642	502	+0.3	−3.0
Worked	383	376	267	−0.4	−4.2
Didn't work	248	266	235	+1.4	−1.5
Unrelated individuals	2,211	2,115	1,476	−0.9	−4.4
Male	815	712	451	−2.7	−5.5
White	567	534	351	−1.2	−5.1
Worked	421	386	201	−1.7	−7.9
Didn't work	146	148	150	+0.3	+0.2
Nonwhite	248	178	100	−6.4	−7.0
Worked	186	116	35	−9.3	−13.4
Didn't work	62	62	65	0.0	+0.6
Female	1,396	1,403	1,025	+0.1	−3.8
White	1,048	1,079	789	+0.6	−3.8
Worked	590	571	354	−0.7	−5.1
Didn't work	458	508	435	+2.1	−1.9
Nonwhite	348	324	236	−1.4	−3.9
Worked	204	199	116	−0.5	−6.2
Didn't work	144	125	120	−2.8	−0.5
Aged households	4,521	4,235	4,877	−1.3	+1.8

*Less than 0.05 percent.
Source: U.S. Department of Health, Education, and Welfare, *Program Memorandum on Income Maintenance and Social and Rehabilitation Service Programs of DHEW,* November 1968, and *Toward a Social Report,* 1969.

will continue to decline at the same rate, thereby ultimately eliminating poverty, and that existing Government antipoverty programs have been solely responsible for the decline.

The decline in poverty came during a period of sustained economic expansion and extensive tightening of labor markets. The benefits of this economic growth were unevenly distributed among the poor. Those with labor force connections benefited considerably more than those outside the work force. In the early 1960's the number of poor families headed by nonaged working men fell by 9 percent per year. By contrast, the number of aged poor households fell by only about one percent per year, and for families headed by women the decline was imperceptible. This uneven pattern portends the pattern of the future.



Projections prepared by the Department of Health, Education, and Welfare show the overall incidence of poverty continuing to decline, but at a decelerating rate, with the composition of those remaining poor continuing to shift. It is estimated that by 1974 there still will be some 17 million poor persons living in nine million households if Gross National Product grows by 4 percent per year in real terms. More than four million of these people will be in families headed by a nonaged working man.[1] Obviously, should we suffer a recession, or even a reduced rate of real economic growth, the projected number of poor families would be larger. Thus, despite the great productivity of the Nation's industrial system and the increasing income which it generates for most Americans, the poor will remain with us in very large numbers for the foreseeable future.

Indeed, the composition of the poor is changing so that the poor more and more are those who gain least from economic growth: the aged, the disabled, female-headed families, and those whose limited skills seem unlikely to be demanded by an increasingly complex industrial system. Consequently, almost inevitably, there must be a slowing down of the rate of escape from poverty. The import of these projections, in the view of the Commission, is that public action is necessary to end absolute poverty in the United States. We cannot expect a significant portion of the future's affluence to flow automatically to the poor.

Moreover, these projections are based on a fixed poverty index—adjusted for price changes only—which may be misleading and obsolete in the context of the rapidly rising living standards of the general society.

Relative Poverty

Predictions, calculations, and prescriptions dealing with the problems of poverty rest on the Social Security Administration poverty index, a definition of poverty based on the cost of a fixed emergency food budget, adjusted annually only for price changes. No adjustments in the index are made to reflect changes in living standards enjoyed by the general population. This official poverty line purports to represent a level of survival income sufficient to buy bare necessities. Presumedly, it is based on scientifically determined standards of nutritional adequacy and other basic needs.

In fact, however, the objectivity of the absolute budget is illusory. Other poverty lines can be developed corresponding to lower or higher consumption standards. These can be bolstered with scientific surveys, but retain a large degree of arbitrariness. For, in the end, the choice of what must be included in the budget is made subjectively by the researcher.

The arbitrary quality of this sort of index was shown in August 1969 when the Government changed the price index and the ratio of farm to nonfarm incomes used in computing the poverty index. As a result of these strictly technical changes, the estimated number of poor persons in 1967 increased from 26 million to almost 28 million.[2]

The Concept of a Fixed Poverty Line

The concept behind a fixed measure of poverty is itself subject to increasing criticism. It is argued that such a level merely allows the poor to survive at an unchanging, low level—while the nonpoor measure their well-being in terms of real income growth. The difficulty, of course, is not with the poverty index as a technical construct, but with changing subjective feelings about what standard of living is adequate and about the importance of relative deprivation.

Solely as a result of growing affluence, a society will elevate its notions of what constitutes poverty. Many factors account for this. All people tend to measure their well-being against some norm.

[1] U.S. Department of Health, Education, and Welfare, *Toward a Social Report*, 1969, Chapter IV.

[2] U.S. Bureau of the Census, *Current Population Reports*, Series P–23, No. 28, "Revision in Poverty Statistics, 1959 to 1968," August 12, 1969, Table D.

When the median income is growing rapidly, those above it will perceive the poor differently, and the poor living on an unchanged income will view their lot differently.

But there are objective as well as subjective reasons for requiring poverty standards to rise with increases in the general level of prosperity. As affluence increases, community standards will constantly raise the level of income needed by the poor in order to exist. City housing codes will be upgraded, and the poor will have to improve their homes or pay more rent for their better buildings. When most of the community owns automobiles or moves to the suburbs, public transportation will probably deteriorate, leaving the poor with either inadequate or more expensive transportation. The city will enrich the public school curriculum, and poor students will have to pay for special assembly programs and field trips, or buy gym suits instead of just tennis shoes, or wear white shirts and neck ties instead of simpler clothing, or buy uniforms in order to belong to clubs. As economic advancement both allows and demands increasing education, children in families unable to provide money for higher education will fall further behind.

Clearly, as a society's general standard of living rises, increasingly expensive consumption patterns are forced on the poor, not in order to catch up, but in order to remain a part of that society. Moreover, as society's normal standard of living rises the poor will seek to emulate it—since they are part of society—and feel increasingly deprived if they cannot.

Relative Shares

A fixed definition of poverty leads to the conclusion that if income generated by future economic growth flows to the poor in the same proportions as in the past, then poverty will disappear. That is, if America's relative income distribution remains constant, or does not move against the poor, then eventually all might rise above the fixed poverty line.

The constancy of America's income distribution suggests that the poor consistently have received about the same percentage of the Nation's income. As Table 3-2 indicates, the bottom fifth of the population has received approximately the same proportion of aggregate income for over 20 years.

TABLE 3-2. Distribution of Money Income, Mean Income, and Share of Aggregate Received by Each Fifth and Top 5 Percent of Families and Unrelated Individuals, Selected Years, 1947-1966

Year and group	Mean income before tax (current dollars)	Percentage distribution of aggregate income					
		Lowest fifth	Second fifth	Middle fifth	Fourth fifth	Highest fifth	Top 5 percent
Families and unrelated individuals							
1947	$3,224	3.5%	10.5%	16.7%	23.5%	45.8%	19.0%
1957	4,861	3.4	10.8	17.9	24.8	43.1	16.7
1962	6,049	3.5	10.3	17.3	24.5	44.3	17.3
1966	7,425	3.7	10.5	17.4	24.6	43.8	16.8
Families							
1947	3,566	5.1	11.8	16.7	23.2	43.3	17.5
1957	5,483	5.0	12.6	18.1	23.7	40.5	15.8
1962	6,811	5.1	12.0	17.3	23.8	41.7	16.3
1966	8,423	5.4	12.3	17.7	23.7	41.0	15.3
Unrelated individuals							
1947	1,692	2.9	5.4	11.5	21.3	58.9	33.3
1957	2,253	2.9	7.2	13.6	25.3	51.0	19.7
1962	2,800	3.3	7.3	12.5	24.1	52.8	21.3
1966	3,490	2.8	7.5	13.2	23.8	52.7	22.5

Source: Ida C. Merriam, "Welfare and its Measurement," Eleanor B. Sheldon and Wilbert E. Moore, eds., *Indicators of Social Change* (New York: Russell Sage Foundation, 1968), p. 735.

But this view of poverty and the use of a fixed definition implies a concept of absolute poverty unrelated to the growing American standard of living. Absolute poverty is difficult to define objectively. The notion of mere survival as a basis for defining poverty is unrealistic in an advanced industrial society which is daily growing richer. Poverty relative to some norm may be a more meaningful conception of this social problem. Despite all of our income and welfare programs, we have not altered appreciably the structure of this Nation's income distribution.

Most important of all, the gap between the living standards of the poor and the more affluent is increasing. This is true for everyone at the lower end of the income distribution scale, but obviously bears most on the very poor. When we use a specific income level such as the poverty index to define the poor, we find they are falling further behind the general population. Table 3–3 shows that the ratio of the poverty line to the median income has fallen significantly since 1959. The median income has risen by 57 percent over this period, while the poverty line has increased by only 20 percent.

TABLE 3–3. Median Income and Poverty Line For a Nonfarm Family of Four, 1959 and 1968

Income measure	1959	1968	Percent increase
Median income	$6,355 [a]	$9,948	57%
Poverty line	2,973	3,553	20
Poverty line as percent of median income	47%	36%	

[a] Median income for 1959 is for urban families.

Source: U.S. Bureau of the Census, *Current Population Reports,* Series P-60, No. 35; Series P-23, No. 28; and Series P-60 to be released on December 1, 1969.

In the Commission's view, these are significant social facts. As the general American standard of living improves, the poor will become progressively worse off by comparison with some norm. The poor—defined by an unchanging scale—will be struggling for social survival even after the problems of physical survival have been solved.

Radically different consumption opportunities can be seen in traveling from the affluent suburbs of any large city into the deteriorating central core, or by driving from urban to rural America. These life styles are separated by a wide gulf and as the future brings larger incomes to some, those

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who remain even relatively poor will increasingly inhabit a different world than the affluent.

Controversial and difficult as the transition may be, our own affluence may force upon us a changed view of poverty. As citizens of the richest Nation in the world we may come to regard the social isolation of the poor from the standard of living and opportunities open to the rest of society to be as important as their low incomes.

We may view the consequences of living considerably below general standards—albeit above starvation—as real and significant, especially in a society which desires fluid class lines.

A relative view of poverty will obviously give a very different picture of the poor population. Table 3–4 presents recent trends in the incidence of poverty for families, as measured by an absolute and a relative standard. Using a fixed standard which defines poverty as an income of less than $3,000 a year, the percentage of poor families has decreased markedly between 1947 and 1965. Using, for purpose of illustration, a measure of relative poverty of one-half of the median income, the incidence of poverty has not fallen perceptibly since 1947. Commission staff estimates indicate a continued rough constancy through 1980.

In these trends is the potential for social division unparalleled in our Country. We already are seeing some of the results of this division in urban unrest. The Commission has been deeply disturbed by its contact, through field hearings, with many articulate poor persons who feel increasingly "left out" and helpless. This is a serious problem for National Government policy. The poor can do nothing to halt this growing division. As we have seen, the poor are unable to break out of absolute poverty. They will find it even further beyond them to close the widening gap of relative poverty.

TABLE 3–4. Percentage of U.S. Families Classified Poor by Changing and Fixed Standards, 1947 to 1965 (*in 1965 dollars*)

Year	Percentage of families	
	Income less than one-half the median	Income less than $3,000
1947	18.9%	30.0%
1948	19.1	31.2
1949	20.2	32.3
1950	20.0	29.9
1951	18.9	27.8
1952	18.9	26.3
1953	19.8	24.6
1954	20.9	26.2
1955	20.0	23.6
1956	19.6	21.5
1957	19.7	21.7
1958	19.8	21.8
1959	20.0	20.6
1960	20.3	20.3
1961	20.3	20.1
1962	19.8	18.9
1963	19.9	18.0
1964	19.9	17.1
1965	20.0	16.5

Source: Victor R. Fuchs, "Comment on Measuring the Low Income Population," Lee Soltow, ed. *Six Papers on the Size Distribution of Wealth and Income* (National Bureau of Economic Research, 1969), p. 200.

Conclusion

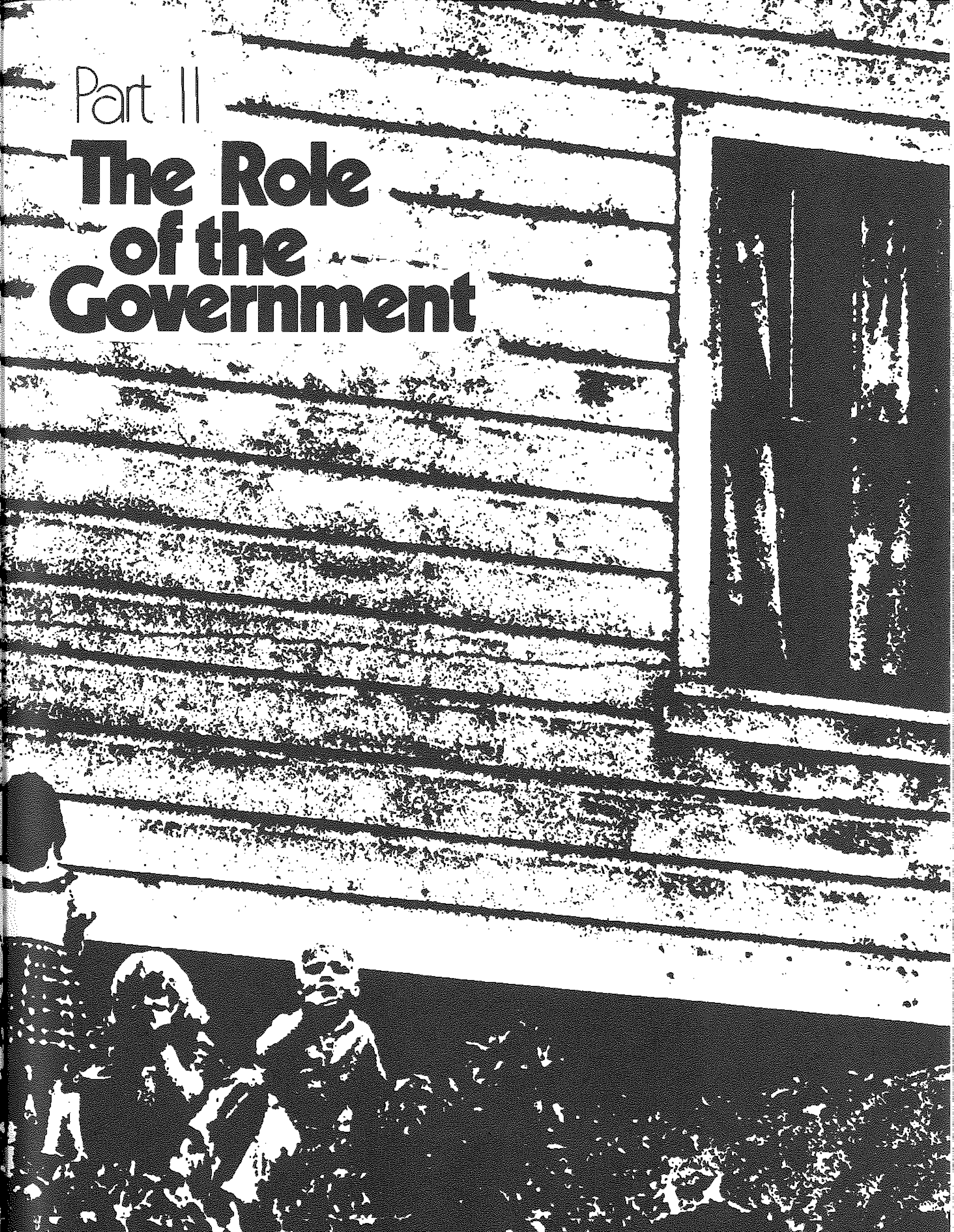
This Commission has looked at poverty primarily as an absolute phenomenon. In seeking to deal with *this* problem, we have recommended a basic cash program which represents a new approach to income maintenance and a new chance for the poor. But this program will not end the problems of poverty, absolute or relative. Over long periods of time, a prosperous society shifts

its patterns of consumption upward and these shifts affect the poor. If delineated only by unchanging absolute standards, the life style available to the poor will grow increasingly separate from and inferior to the way of life followed by others in the society. These basic issues must be faced. They are too new in public debate and too far-reaching for this Commission to resolve them. From our studies and travels, however, we have concluded that the narrower issue of improving our income maintenance system must be placed in this broader perspective.

For the present, the Commission feels strongly that:

- Absolute poverty must be ended soon in the United States. By its very existence, absolute poverty condemns some citizens to death or lives of misery. This should not be tolerated amidst the vast wealth of our Nation.
- Greater access to opportunity must be provided to all Americans. In a society that distributes most income through the labor market, unequal opportunity to prepare for productive work virtually guarantees low income to those excluded.
- Any new income maintenance scheme must be viewed in the context of National economic growth and the future relative position of the poor.

Part II
The Role of the Government



Chapter 4 Past and Current Programs

Our investigation of poverty in America has convinced this Commission that the problem cannot be solved without Government intervention. The challenge we face is to design a means of providing basic economic security to all Americans. We want a system which helps people obtain adequate income, which is equitable, and which preserves both dignity and incentive. By increasing the income of the poor, and by preventing many from becoming poor, such a system would reduce the growing distance between the poor and the average American.

The Federal Government and State and local governments have operated income maintenance programs for many years. Before developing a new system we must learn the lessons of these earlier programs designed to aid the poor. This chapter summarizes those lessons. A detailed review of existing programs is included in Appendix A.

The Origins of Existing Programs

The existing system of income maintenance programs originated in the Depression of the 1930's when millions were unemployed. As it has evolved over 35 years, it has been based on a three-pronged strategy of employment, social insurance, and Public Assistance. In our society the great majority of people obtain their income and social status through employment. The strategy thus assumed that monetary and fiscal policies would guarantee sufficient employment at adequate wages for most people, while education and training programs would assist others in developing their employment potential. If there were enough jobs, adequate education would assure young people a place in the labor force. In addition, a family or individual would need protection against changes in the unemployment rate and against the crippling losses of income when the breadwinner retires, dies, or becomes disabled.

Finally, Public Assistance would be necessary as a "residual program" to aid those considered unable to enter the labor force.

This analysis gave birth to the Social Security System, which provided partial income replacement to workers and their families upon retirement or death. More recently it has provided income to disabled workers and health insurance for the aged. State Unemployment Insurance programs were encouraged by Federal legislation to keep those who were briefly unemployed from becoming paupers. The Public Assistance system was constructed as an optional State program, jointly financed by all levels of government, to provide aid for particular categories of the poor: the blind, the aged, the disabled, and dependent children and their guardians. Generally, able-bodied male workers were ineligible for assistance under any of these programs. Training and manpower programs have been developed to increase the earning power of employables—but only recently. Other transfer programs have been created for special groups deemed deserving and in need—such as veterans—and a variety of subsidized goods and services—such as housing, health, and food—have been made available to various income groups.

The strategy behind the income maintenance programs of the 1930's was aimed at the lack or loss of employment rather than directly at the problem of poverty. Today, however, the context of poverty and our view of it are vastly different from that era. We have learned to manage the economy so that catastrophic unemployment no longer is a significant threat. While the economic growth of recent decades has multiplied vastly the output of the economy, we have learned that a very substantial portion of poverty and unemployment is chronic, beyond the control of individuals or the influence of rising aggregate demand. The American economy holds the promise of continued economic growth, a growth in which all Americans *could* share, but in which some may not.

In the mid-1960's an effort was made to mount a war on poverty; the main emphasis was placed on programs to expand opportunities. Social service, training, counseling, and related programs grew rapidly. But on the income maintenance front we attempted to fight the war with old weapons. We sought to improve old programs by raising benefits, easing eligibility requirements, and extending coverage. Now every month on the average, 24 million Americans receive Social Security checks, 10 million are helped by Public Assistance, and 1.1 million draw Unemployment Insurance benefits. But many of the poor remain untouched by any of these programs.

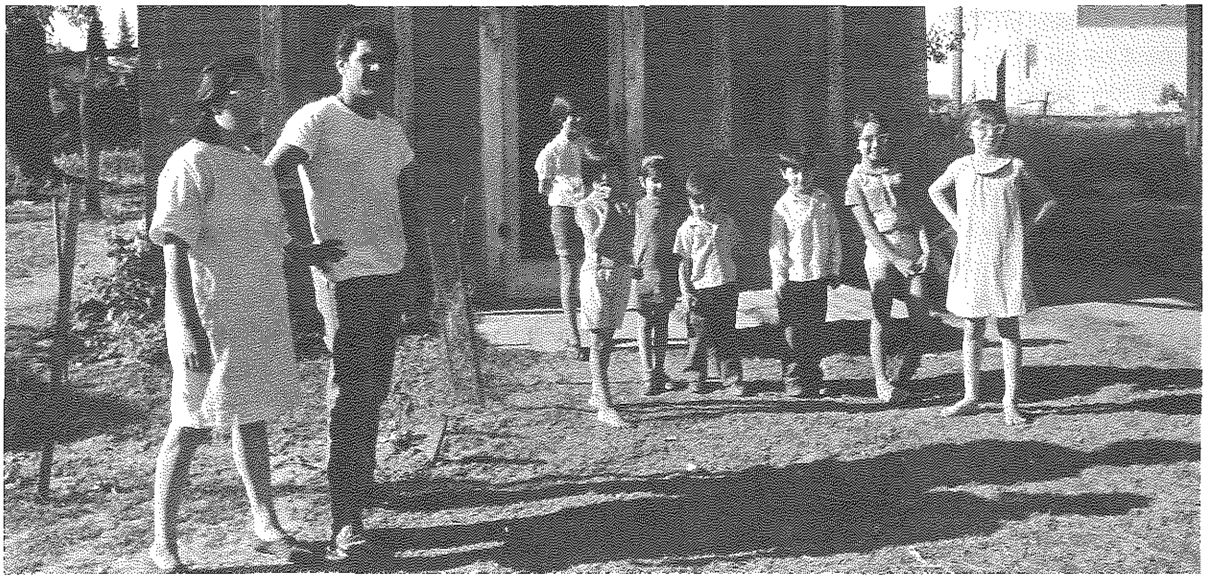
Critique of Current Programs

We have done much to help the poor in our midst. But we have not reassessed our theories or changed our program structure. We have not developed a National program which (1) provides economic security to all those in need, not just those in certain categories, (2) provides aid in an efficient, dignified, consistent fashion, and (3) preserves the incentives that have provided much of our unique growth as a Nation and as individuals. The present income maintenance system has not succeeded for several reasons.

Programs Focus on the Unemployable Poor

One of the major obstacles in the development of an adequate National income maintenance program has been the reluctance to supplement the incomes of employed and *potentially* employable persons. We have assumed that the labor market would provide such persons with sufficient income. But many persons are at least intermittently unemployed due to both cyclical and structural reasons. In 1968, a good year in terms of employment opportunities, monthly unemployment averaged 2.8 million persons. During the course of the year, a total of 11 million persons experienced some period of unemployment.

The major program dealing with the temporarily unemployed but employable person is Unemployment Insurance. However, in 1968 this



insurance did not provide compensation for nearly two-thirds of total unemployment because of gaps in coverage and expiration of benefits. Not only are payments limited to a specified length of time, but Unemployment Insurance benefit levels are low. In most States they are below the poverty level for families with children.

The program of Aid to Families with Dependent Children is aimed primarily at families with absent or incapacitated fathers. An Unemployed Father component of this program (AFDC–UF) can provide benefits to households headed by unemployed able-bodied men, but the eligibility requirements are stringent. Only 25 States have chosen to implement this program since its enactment in 1961, and less than 100,000 families are benefiting from it.

In 1966 there were 2.6 million poor families headed by nonaged able-bodied men.[1] These men, and their 10 million dependents, were excluded from Federally-assisted Public Assistance, although a few received locally-financed General Assistance. That exclusion may have weeded out a few potential malingerers and saved a few dollars in the short run, but in the long run it has produced harmful social and economic effects.

The structure of existing welfare programs encourages the real or feigned break-up of poor families, since unemployed or poorly paid fathers generally must leave home if their families are to become eligible for AFDC benefits. AFDC benefits vary by family size and provide a predictable if low income, while wages are subject to the vagaries of a labor market characterized by diminishing need for low-skilled workers.

The employment potential of AFDC recipients—and hence the rationale for treating them separately from working men and women—is unclear. The employability of incapacitated AFDC fathers obviously is limited. The education and skill levels of many AFDC mothers severely limit their employment opportunities in the current job market, especially since the demand for low-skilled workers has been declining. Partially because of this, provisions were enacted recently which allow AFDC recipients to work and still retain part of their grants.

While many AFDC recipients could increase their total income from this provision, the employed poor and the employable poor are put at a further disadvantage vis-a-vis welfare recipients. These work incentives make increasingly frequent

[1] U.S. Department of Health, Education, and Welfare, Office of the Assistant Secretary (Planning and Evaluation), *Poverty Status Tabulations, 1966.*

the inequitable situation in which a poor family headed by an employed worker may have significantly lower income than an AFDC family which the male head has deserted.

Thus, the lack of a program which aids working men and women not only creates economic disincentives and encourages family breakup; it also is socially divisive, because it is possible for the incomes of some aid recipients to exceed the incomes of low earners of the same family size. The understandable resentment that has developed against welfare programs sometimes has been interpreted to mean that all efforts to assist the poor are resented by the nonpoor and especially by the marginally nonpoor—who have somehow "made it on their own." But malevolence need not be the source of this resentment. Clearly, resentment can spring from a sense of unfairness because programs reverse positions and ranks in the income distribution for no justifiable reason.

The potential for reversing positions in the income distribution exists under the welfare system because we have largely clung to the notion that employment and receipt of welfare must be mutually exclusive. This view is untenable in a world where many employable persons have potential earnings below assistance payment standards. In developing programs to eliminate poverty, exclusion of the employable and the working poor from categories aided by the Government would be justifiable only if all who worked achieved adequate incomes. This is not the case.

Social Insurance Benefits Depend on Earnings

Social insurance programs protect workers and their families against the loss of earnings from some of the hazards of industrial life. Each social insurance plan is built around one of several carefully specified risks that have been identified as potential interruptions to earnings. Old Age, Survivors, and Disability Insurance, Unemployment Insurance, Workmen's Compensation, and other forms of social insurance generally pay benefits based on earning levels before employment is interrupted.

These programs have departed somewhat from strict insurance principles because they also provide benefits to some persons who have contributed little or nothing, and the ratio of benefits to contributions declines as the size of contributions increases. Despite this they do not provide adequate benefit levels for the very poor. They pay adequate benefits only to those with strong labor force attachments and relatively high earnings records. Because eligibility for social insurance is related to employment, it cannot reach effectively those who are poorest—those who have fleeting or irregular labor force ties. Moreover, low wage earners will receive low social insurance benefits. The poor worker will become a poor beneficiary. And the system's coverage is still denied to the most poorly paid workers and to the poor who are not employed at all.

Programs Deal Differently with Categories of the Poor

Federal assistance and social insurance programs are designed to provide aid to selected categories of the poor. Programs are designed to cover only certain risks or to benefit only certain groups, such as persons who are old, blind, or disabled, veterans, and farmers.

One consequence of this categorical approach has been the exclusion from Public Assistance of many who are unquestionably in need of help. Part of this exclusion has been by design, as in the case of the employed or employable poor. Other exclusions result because it is impossible to design categories which can cover all cases of need, anticipate the wide variety of human circumstances, and change in response to new manifestations of need. So, we exclude many and arbitrarily include others.

Similarly, it has proven impossible to spell out and devise social insurance programs for all the possible risks to earnings. While old age, death, severe disability, and involuntary unemployment are fairly obvious risks, others—such as partial

mental and physical disorders—are not so obvious or so easily covered. It is more difficult to design programs for those who cannot work due to psychological disorders than for those with physical disabilities, although they may be equally unemployable.

Public Assistance Programs Are State and Local Programs

Public Assistance was designed as a residual program for unemployable persons which would wither away in the face of effective employment and social insurance programs. Instead it has grown increasingly larger. Employment has not guaranteed economic security to workers. Social insurance does not cover all workers, or provide adequate benefits to those with inadequate earnings. Thus, the primary burden of providing basic economic security for many Americans has fallen on Public Assistance programs. These responsibilities go far beyond those originally intended for the programs.

Public Assistance provides Federal matching funds for State Public Assistance programs that operate within loose Federal guidelines. The programs exist at State option, and the decision to implement or ignore each of the various cash assistance and service programs is left to the States. The Federal Government can provide financial encouragement for participation, but it cannot compel States to offer these programs.

This local option arrangement has consistently thwarted efforts at National welfare reform. The Federal administering agencies simply have not been able to develop uniform practices and procedures in the 50 States. New administrative guidelines may be issued at the Federal level with comparatively little information on how they will be interpreted and instituted at lower levels of government. The multiplicity of governments involved has made effective policy coordination nearly impossible. The major power of the Department of Health, Education, and Welfare for affecting State programs is the power to withhold funds. But the burden of such action falls primarily on the poor rather than on the State, so such a step never has been taken. Hence, it is not surprising, given resource limitations at the State level, that several of the more significant welfare reforms in recent years have been the result of court decisions rather than National legislation or Federal administrative action.

Clearly, it is somewhat misleading to talk of Public Assistance as a single set of program components, since there are at least 50 State programs with considerable intra-State variations. This multiplicity of programs has several effects: program benefits are generally low; program coverage is restricted; administration is subject to local discretion; and programs differ markedly from State to State in benefit levels, program coverage, and administrative practices.

There are wide differences both in the treatment of needy individuals who fall into the same categories—because of variations in State benefit levels—and in the treatment of needy persons in different categories. Within the Aid to Families with Dependent Children Program, in January 1969 for example, average grants per recipient ranged from $10 per month in Mississippi to $65 in Massachusetts. For Old Age Assistance the range was from $36 per person monthly in Mississippi to $115 in New Hampshire.

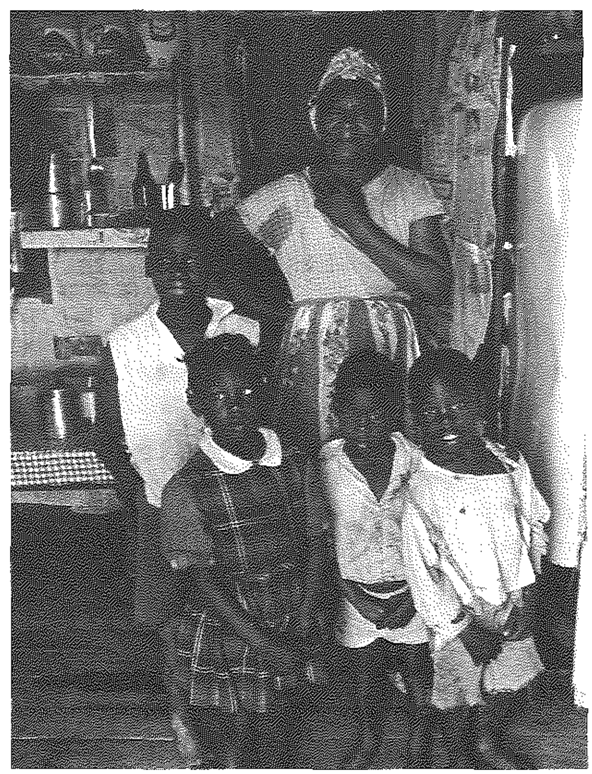
Average grants reflect the variety of factors taken into account by States in determining payment levels and eligibility. Among these factors are amounts of income from other sources and family composition. The data below, however, show maximum payments for cases with no other income under the various programs.

Type of case	Maximum Monthly Payment	
	Low State	High State
AFDC (4 persons)	$55	$332
AFDC (6 persons)	88	423
OAA (1 person)	50	182

These are the amounts that would be paid if the assistance unit had no other income. Six States set maximum AFDC payments for families of four persons at a level almost identical with those for single aged women under OAA. One State actually pays the family less. Differences in benefit levels by State far exceed cost-of-living variations. These programs thus act to accentuate rather than to reduce the sharp differences in living standards across this Nation.

The administration of Public Assistance stands in marked contrast to other public programs such as Social Security and the Federal personal income tax. In both of those, administrators have little discretion in dealing with individuals and follow objective rules and procedures. The determination of eligibility, need, and grant levels in Public Assistance on an individual case-by-case basis gives a great deal of discretion to officials at the lowest level. They have the power to interpret regulations broadly or narrowly, to give or withhold assistance. Moral fitness requirements not characteristic of more impersonally run programs often are imposed, and administration of the program may be harsh and stigmatizing. While such individual discretion is not misused always or perhaps even generally, the *potential* for abuse and the way in which this potential affects Assistance clients compels us to emphasize here the types of problems we have encountered in the system.

Some recipients of Public Assistance have not had sufficient access to information regarding the rules which govern them or the benefits to which they are entitled. In many areas, this information has been systematically kept from them as well as from the general public. Thus more stringent interpretations of regulations may be made in times of budgetary pressure. Various forms of coercion may be used to impose conditions on the recipient of aid. Recipients may be harassed by investigators and their private lives may be exposed to governmental scrutiny seldom found in an open society.



Programs Provide Benefits-in-kind

There are also governmental programs which supplement low incomes through direct provision of goods and services or subsidies to consumers. The major in-kind programs provide subsidized housing, health care, and food.

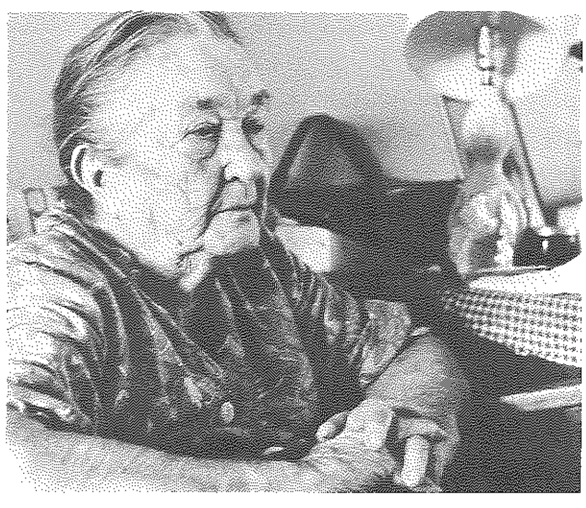
Federal housing programs reach low and middle-income families through a number of means, including public housing, mortgage insurance, rent supplements, and urban renewal. The limited funds allotted to these programs have restricted their scale. There are approximately 700,000 units of Public Housing, for example, while the number of families potentially eligible as tenants exceeds seven million. These housing programs require a basic financial capability if families are to repay loans—despite very low interest rates—or to pay rent—even subsidized, modest, below-market rents. Hence, many of the poorest families are excluded.

Two major programs assist families and individuals in paying for health care. The Medicare program, enacted in 1965, provides medical care benefits to those over age 65. Part A, under which virtually the entire aged population is enrolled, primarily covers hospitalization. Part B, under which approximately 90 percent of the aged are enrolled, costs enrollees $4 per month for coverage of physicians' fees. Because of deductibles, co-insurance formulas, limitations of benefits, and non-coverage of out-of-hospital drugs, Medicare pays only 40 percent of the health care costs of aged persons.

The Medicaid program assists States in furnishing medical care under State Public Assistance programs. Many of the poor are screened out of the program due to stringent income tests and a variety of State-imposed non-income eligibility requirements. Medicaid covers a minority of low-income persons, and generally does not provide fully for even this group.

Two major programs have been developed to subsidize food for low-income families: the Commodity Distribution program, which provides for direct distribution of certain commodities, and the Food Stamp program, which sells stamps at a discount to low-income families, with which they can purchase food at commercial grocery stores. Both programs give low-income households an opportunity to supplement their diet, but neither program is designed to assure a participating household of an adequate diet. Moreover, non-food needs go unmet. These needs often deter persons from buying stamps since outlays for stamps tie up scarce dollars and may leave families unable to meet other needs, such as rent. Commodity programs have been unpopular with recipients because the range of foodstuffs generally is limited and many of the commodities are not very palatable. Both the Commodity and Food Stamp programs are administered by local welfare departments and are governed by State Public Assistance eligibility requirements which exclude many of the poor. These exclusions, plus the reluctance or inability of many persons to buy the Food Stamps, have limited program beneficiaries to only one-fourth of the poor.

In-kind programs are a response to both the limitations of the market—which cannot always make available an adequate supply of housing and health services at low cost—and the inadequate incomes of the poor. Government efforts thus far have not compensated successfully for either of these factors. Programs have been funded at low levels, and responsibility for their implementation and operation often rests with the



States. Hence, not all of the poor have been reached. Many of those who have participated have had their range of choice severely limited by earmarked benefits. In-kind programs aimed to supplement low incomes generally do so less well than direct cash payments. Programs which provide a money income supplement allow for greater consumer choice, and permit greater flexibility of family resources than governmental programs which attempt to set family priorities and allocate family resources. Moreover, we feel that the market system is more efficient at distributing goods and services than direct governmental distribution.

The Need for a New Program

Although performing the basic functions for which it was created, each of the component programs of the existing income security system has internal flaws. More significantly, the overall strategy which guided development of these programs is defective in conception. The strategy which this Nation has followed—relying on full employment to provide adequate income to workers and their families, social insurance to maintain the incomes of workers forced out of their jobs, and residual aid to those who are unemployable—has failed to eliminate poverty. And we do not feel that it can.

In response to the clear failures of the existing system, many proposals have been made for reforms within the framework of the existing system. The Commission has reviewed the major proposals for reform: guaranteed employment programs, broadened coverage and higher benefits under Public Assistance and social insurance programs, and the addition of children's allowances to the system. We have found these alternatives incapable of meeting the basic objectives of universal coverage, and fair and adequate treatment. This review, summarized here, is discussed more fully in Appendices A and B.

Employment and Training Programs

It is often asserted that the labor market could provide adequately for those who are employable, if people could only be placed in the proper jobs. Then simple improvements in Public Assistance and social insurance programs easily could eliminate residual poverty. Job-oriented proposals include expanding training and employment programs, making the Government the "employer of last resort," providing employment subsidies to private industry.

The fundamental limitations in relying on the labor market to provide income for "employables" are the cyclical and structural problems noted earlier which keep many people out of work, at least temporarily. We have not been able to regulate the economy well enough to raise the level of aggregate demand and to increase employment to a high level without bringing unacceptably high inflation.

Employers readily acknowledge that the concept of "employable" varies with the number of applicants for vacancies. In periods of high unemployment, hiring standards rise and employers are quite selective, while standards fall in periods of low unemployment. But many people remain unemployable even at low unemployment rates because of their low education levels, lack of skills, or poor health. Some may have prison records or debts that make them difficult to place in jobs.

Programs that integrate the hard-core unemployed into the labor force can and do work, but they are expensive and slow. Currently, such programs are reaching only a few hundred thousand of the poor annually. It has been estimated that reaching all of the employable poor who could benefit from manpower services and training would require making these services available to 11 million persons. Even if funding levels of these programs were increased substantially, training and manpower programs must be viewed as long-term solutions. Moreover, the effectiveness of such programs is contingent on the ready availability of jobs for those receiving training.

To guarantee employment directly for all potential candidates at the minimum wage would require creating some nine million jobs. Such a course of action would cost $16 billion, and still

might leave millions poor, since employment at the minimum wage would not remove larger families from below the poverty line. Government employment programs on a more modest scale—without a general guarantee of a job—would omit many more.

The facts regarding employment and employment programs fly in the face of the frequent assertion that anyone willing and able to work can earn a decent living. Improvements in education and human resource development programs contribute to long-run solutions, and they help redress previous deprivations, but they do not help those in poverty now. And programs predicated on employment, such as the social insurance programs, cannot ease greatly the financial plight of persons who have not experienced steady employment at high wages.

These observations have led us to conclude that employment approaches alone cannot provide a satisfactory sole basis for a general economic security system, and are not fundamental alternatives to income supplement programs. Employment-oriented programs and income maintenance programs must be viewed as complementary.

Social Insurance Reform

Instead of creating a new comprehensive program for maintaining the income of the poor, many proposals have been made for broadening the social insurance system to include more of the poor. Among the changes suggested are: "blanketing-in" under Social Security the aged who are not eligible on the basis of their own contributions, increasing minimum benefit levels to provide adequate incomes for low-wage groups, extending unemployment benefits in periods of high unemployment, and creating new kinds of "insurance" to increase the coverage of present programs.

Some of these proposals are motivated by a desire to provide more adequate income to the needy persons who are similar to the insured but who never have earned coverage. Unfortunately, many of these proposals would weaken further the link between contributions and benefits, a link which has earned broad public support for the social insurance programs.

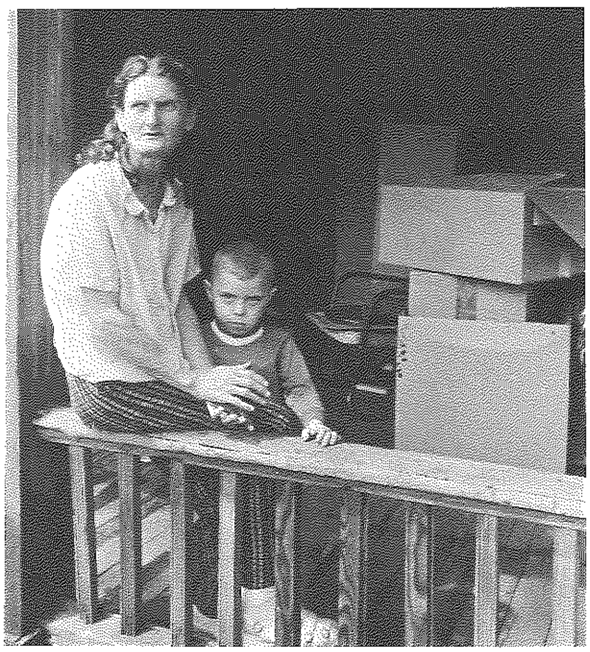
In any case, broadened social insurance would perform an antipoverty function far less efficiently than programs which pay benefits on the basis of need. Social insurance benefits generally are related to past earnings in covered employment rather than current need. Any increase in benefits made with the objective of helping needy beneficiaries would result in a high proportion of that increase going to the nonpoor. Attempts to help the poor by broadening eligibility mean that all members of some population category—such as the aged—are brought in regardless of need.

There is a role for improvements in and expansion of social insurance coverage, as we will note in Chapter 6. But we must also consider the need that would remain.

Welfare Reform

The lack of programs to aid the employed and employable poor is one of the primary deficiencies of the existing welfare system. Although welfare benefits are clearly inadequate in most States, broken families may receive more from AFDC than families headed by fully employed men receive from earnings. Reforming the welfare system by establishing minimum National standards for the existing categories would provide even higher incomes to families headed by nonworking women than can be earned by many families headed by a working man or woman. This inequity would be greatest in the States with the lowest AFDC payments, where payments would have to rise with Federal minimum payments, and where wage scales are low.

It has been proposed, for example, that a floor under AFDC be established at $200 per month net income for a woman with four children. In poor States, the net earnings of many laborers are less than this amount, and their employment may be unstable and uncertain. For the families of such workers, AFDC would provide a better basis for economic security than relying on the earnings of the father. Nationally, there are millions of families headed by both men and women with earnings below welfare standards, and who are ineligible for assistance. This inequity exists under present programs and would be worsened by raising AFDC benefits without supplementing earnings of nonreceipients.



In recognition of this, a new Federally-assisted category of General Assistance sometimes has been proposed. Such assistance, if extended to persons outside the existing categories, including employed male heads of families and single individuals, could allow more uniform and equitable coverage of all the poor.

Although these and other reforms might help many people, they would have a limited effectiveness because of the Federal-State nature of welfare programs. The Federal Government could not easily require all States to adopt a new program, equalize payments among program categories, employ consistent and simplified administrative techniques, or provide adequate benefits. And the States that do not adopt the program create additional problems for those that do. If one goal of an income maintenance policy is complete and equitable coverage of the poor regardless of location, then the administration, choice of benefit levels, and especially the decision as to whether to institute the programs, cannot be left to the States.

Currently, the administration of welfare programs imposes a major burden on State and local governments. A reformed welfare system would have a much larger caseload, since coverage would be expanded. Yet the present welfare system is already an administrative morass. Competent caseworkers are in short supply, and the volume of paper work is enormous. No system of expanded coverage could be launched without providing for simplified administrative methods, greater efficiency, and more impersonal, rationalized procedures.

Conclusion

Employment and training programs, social insurance, and State welfare programs continue to

have significant roles to play in income maintenance. But they are of limited use in providing an income floor for all of the poor in an equitable and efficient manner. There is a greater need for cash grants in income maintenance than we have acknowledged in the past. Such cash grants are most appropriately financed and administered by the Federal Government to assure universality and uniformity of coverage.

In short, we have concluded that:

- Requiring low-income households to support themselves from earnings creates gross inequities because every able-bodied adult has not been assured of opportunities to develop skills fully, and to find employment.
- Social insurance programs that are earnings-related cannot be expected to make payments on the basis of need to those whose earnings have been very low if those who finance these programs are to be truly insured against threats to their income.
- The sole eligibility test for those requiring income not available from employment or social insurance should be a test of income need. Membership in a particular demographic category should not be a condition for aid.
- Payments must be structured in such a way as to provide financial incentives to work, and to limit incentives for family break-up. Providing proper incentives eliminates the need to allow subjective evaluation of applicants, and for allowing administrative discretion in granting aid.
- Those in need should receive a basic cash income floor administered and financed by the Federal Government.

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Chapter 5
A Program to Supplement Low Incomes

The Recommended Program

This Commission's main recommendation is for the development of a universal income supplement program to be administered by the Federal Government, making payments to all members of the population with income needs.

It is clear to this Commission that such a program is needed in the United States to assist persons excluded from existing programs and to supplant other programs. *It is time to design public policy to deal with the two basic facts of American poverty: the poor lack money, and most of them cannot increase their incomes themselves. These conditions can be remedied only when the Government provides some minimum income to all in need.* If we wish to eliminate poverty we must meet the basic income needs of the poor.

The only type of program which we believe can deal with the problem is a direct Federal cash transfer program offering payments to all, in proportion to their need. Such a program can be structured to provide increased cash incomes to all of the poor, and to maintain financial incentives to work. The basic payments should vary by family size, and the payment should be reduced by only 50 cents on the dollar as other income increases. Thus, positive incentives exist for work, and the further development of private savings and insurance, and social insurance systems is not discouraged. By making payments to all in need—regardless of demographic characteristics—incentives to modify family structure in order to become eligible for programs are reduced.

We recommend that such a program be enacted promptly at a level that provides an income of $2,400 per year for a family of four with no other income. Benefits should be scaled to pay $750 per adult and $450 per child to families

with no other income. This program would supplement all incomes below $4,800 for a family of four. Table 5–1 shows the amount of payments that would be made to a family of four by income level, and the impact on total family income.

TABLE 5-1. Impact of Recommended Program on Total Income of a Family of Four

Other income	Income supplement	Total Income
$0	$2400	$2400
500	2150	2650
1000	1900	2900
1500	1650	3150
2000	1400	3400
3000	900	3900
4000	400	4400
5000	0	5000

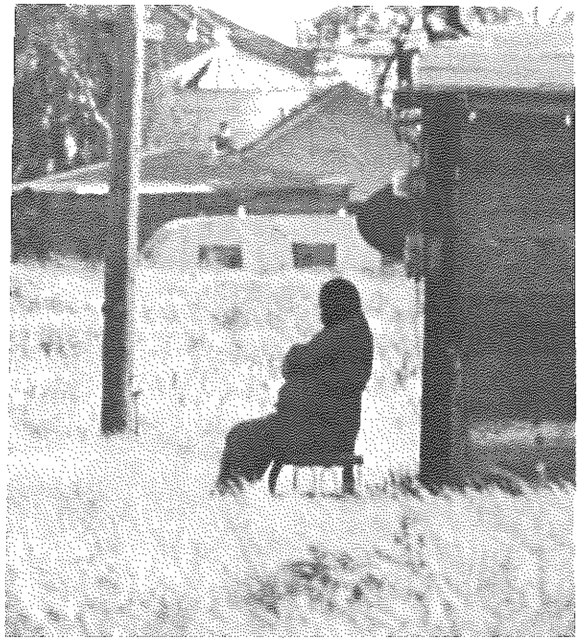
Adequacy

The choice of level for such a plan is difficult. The lower the basic guarantee level, the less adequate the program. But as program levels are increased, costs rise rapidly, as do possible side effects induced by the program. We have sought to chart a course between extremes.

Since an income of $2,400 for a family of four is below the poverty line, the basic benefit level proposed would not meet the full needs of families with no other source of income. *This level has not been chosen because we believe it to be adequate, but because it is a level which can be implemented promptly. The Commission recommends that once the program is launched, the level of benefits be raised as conditions and experience allow.*

The Commission feels strongly that such a program should be enacted in the near future so as to provide the relief badly needed by Americans living in poverty and receiving little or no help. Even if initial benefit levels are inadequate for persons with no other income, initiation of this program would ameliorate the worst aspects of the poverty problem. And, this is the only type of program which can provide adequate benefits at reasonable costs.

Initially this program would replace Public Assistence completely in States with low payment levels, and partially in States with high payment



levels. As benefit levels rise, categorical Public Assistance programs would be replaced fully, so that States and localities eventually would need to provide only short-term emergency aid. Thus, the dominant role in providing continuous cash income support would be shifted from the States to the Federal Government.

Clearly Defined Rights

Federal administration of a universal income supplement program according to objective eligibility criteria would, to a large extent, replace the discretion now exercised by local administrators and eliminate one of the most pernicious aspects of current welfare programs. Benefit amounts and eligibility would be spelled out clearly by Federal law and regulations. Swift appeals procedures should be developed by the administering agency.

Equity

The recommended program can be adopted with no statutory changes in other programs. Benefits of other income-tested programs will decline automatically under current law or practice as the new income transfers are made. This will help eliminate or reduce the wide variations in benefits and administration.

This program would immediately improve the incomes of many of the poor, including the working poor. It would narrow the inequitable differences that now exist between those eligible for categorical programs and those not eligible, and, as the program level is raised, these inequities would be completely eliminated. We are convinced that a noncategorical approach is required in a basic program if adequacy of benefit levels is ever to be achieved while maintaining equity. Attempts to raise the level of existing categorical programs inevitably have exacerbated current inequities.

In the long run the proposed program could lead to a marked reduction in existing variation in living standards of the poor throughout the Nation. Residents of those parts of the country with low wage and assistance levels would receive the greatest immediate benefit from the basic plan; these areas would adapt over time to rising benefit levels. Attempts to reflect different costs of living in different areas would involve many difficulties and so a uniform National supplement is recommended.

In addition to providing equal treatment for persons in equal need, the program would maintain relative income positions. Under the plan, the worker would always receive more income than the nonworker for a fixed household size, and workers who earn more always would receive higher total incomes than workers who earn less. Thus, the plan would not capriciously reverse positions in the income distribution. It would not equalize incomes at the lower end of the distribution; it would narrow differences.

Incentive Effects

Clearly, any program which provides income without work may affect work effort. Empirical evidence for predicting effects of such a program on labor force participation is sketchy. But, given the level of the basic income support program, we are convinced that the disincentive effect is not likely to be powerful. Some secondary and part-time workers as well as primary workers may withdraw from the labor force or reduce their hours worked, and some persons may not enter the labor force because they are provided with a secure income base. We would expect reduced work effort to be concentrated among secondary family workers, female family heads, and the elderly, rather than among nonaged male family heads. Thus, some reduced work effort may be socially as well as individually desirable for many of those affected. The fact that support levels for those without earnings under the proposed program are low, and that work will always produce increased income, would maintain strong financial inducements to work.

The alternative to relying on financial incentives to work is to impose work requirements on applicants for aid and to deny aid to those who are deemed employable by some official. We believe that such tests cannot be used effectively in determining eligibility for aid, and are undesirable in any case. Employment tests imposed by current programs often are based on largely irrelevant criteria such as age, sex, and the like. While these factors are useful for purposes of manpower planning in the aggregate, they do not fit individual cases well. The only meaningful determination of employability for an individual is the outcome of a freely operating labor market; no timeless definitions of employability can be drawn. Inevitably, any simple test designed to withhold aid from the voluntarily unemployed will deal harshly with some of those who cannot find work. Any degree of complexity involved in the test would introduce elements of subjective evaluation to be exercised at the lowest administrative level. We do not think it desirable to put the power of determining whether an individual should work in the hands of a Government agency when it can be left to individual choice and market incentives. Since we do not now have employment for all who want to work, employability tests lose much of their meaning in the aggregate. But they allow abuses in individual cases.

In any case, we do not believe that employment tests are needed. Our observations have convinced us that the poor are not unlike the

nonpoor. Most of the poor want to work. They want to improve their potential and to be trained for better jobs. Like most Americans, the poor would like to do something with their lives beyond merely subsisting. By providing them with a basic system of income support, we provide them with an opportunity to do these things.

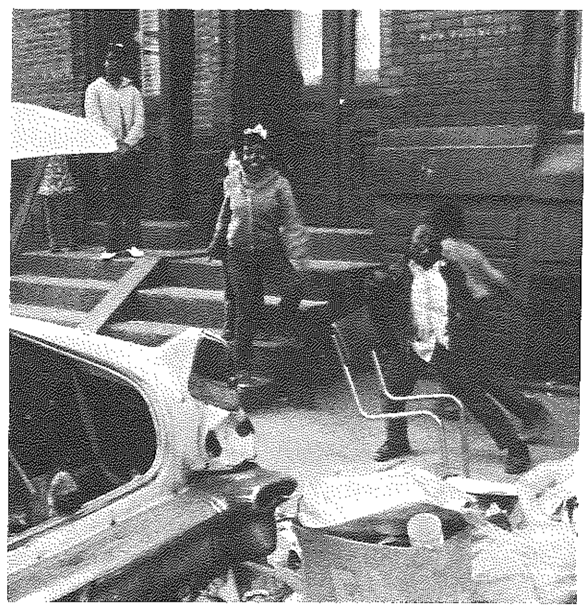
Exaggerated fears of massive work disincentive effects often have influenced discussions of income maintenance. Though these effects could be important, our fears should not lead us to forget the crippling effects of poverty. Men and women who are poor cannot afford to take risks. They are seriously impeded in making plans. They usually are precluded from accepting opportunities that require the investment of time or money. Most of their time and energies are absorbed in survival on a day-to-day basis. Once the poor are assured a minimum stable income, they will be in a much better position to use other antipoverty programs. Education, job training, and employment counseling can be expected to operate more successfully on persons who have a base of economic stability on which to build. It is unrealistic to expect these programs to be utilized effectively by persons whose basic incomes are inadequate, uncertain, and unstable. And to require people to enter such programs as a prerequisite for income support is unnecessary. We have noted that existing training programs generally are oversubscribed with volunteers. Unless jobs were abundant and the training programs had adequate capacity, any requirement that unemployed recipients of income support accept training would be meaningless. The Commission believes that market incentives and not compulsion should be the basis for accepting both employment and training.

Because the recommended program would make payments to all in proportion to their need, financial incentives to alter family composition would be reduced sharply. With payments available to male-headed families with low income, the strong incentive for family splits inherent in AFDC would be mitigated. Similarly, payments would be available to families and individuals without children, thereby removing inequities between childless couples in need and families with children in need who may currently be eligible for AFDC.

Program Tansfers

The recommended plan would increase net Federal budget costs by an estimated $7 billion in 1971. If States which currently make assistance payments above the recommended initial level of the Federal program made supplementary payments to current recipients up to their current standards, State and local spending would be reduced by one billion dollars. An estimated 28 States would not have to make supplementary payments to recipients of AFDC since their payment levels are below or about equal to the level of the new Federal program.

Thus, the estimated net added cost of the recommended program to all levels of Government would be $6 billion in 1971. This amount is the increase in the disposable income of the 10 million households receiving payments under the plan. Five billion dollars of increased income would be received by the estimated eight million households poor prior to receiving payments, and the remainder by households somewhat above the poverty line. Over one million households would be removed from poverty, while all of the poor



would have significantly higher incomes. Half of the poverty income deficit would be eliminated by this program alone.

Over half of the increased income from the program would be received by households not currently receiving public income-conditioned transfers. Approximately one-third of the net payments would go to households where the head works full-time all year.

Thus, enactment of this program would represent a significant step towards eliminating poverty in America. And as benefits are increased in the future, further inroads would be made. Successful pursuit of other programs—as outlined in Chapter 6—would result in faster achievement of this goal.

Costs of Alternative Plans

Plans that supplement incomes can be set at various levels and have different structures. A detailed review of specific design considerations is contained in Appendix C. This section presents data on the sensitivity of costs and program coverage to changes in levels.

Program Costs

Table 5–2 shows how the basic program structure varies with the two basic parameters: the income guaranteed to a family with no other income, and the rate at which payments are reduced as other income rises. The breakeven income is the level at which supplementation ceases.

TABLE 5-2. Breakeven Income Level by Reduction Rate and Guarantee Level, Family of Four

Guarantee	Breakeven income by reduction rate		
	30%	50%	70%
$2,000	$6,667	$4,000	$2,857
2,400	8,000	4,800	3,428
2,800	9,333	5,600	4,000
3,200	10,667	6,400	4,573
3,600	12,000	7,200	5,143
4,000	13,333	8,000	5,714

For a fixed basic grant level, the higher the reduction rate the lower the breakeven level and vice versa. The number of eligible persons and the program cost vary directly with the reduction rate. For a fixed guarantee, costs would appear lower for a high reduction rate. However, the higher the rate, the greater the potential adverse effects on work incentives. The Commission has chosen a 50 percent reduction rate for this reason.

Table 5–3 shows how costs of programs would vary for a fixed reduction rate (50 percent), as the guarantee level varies. The costs are projected to 1971. As other income rises due to economic growth, the cost of such programs would decline, so that the cost magnitude of higher level programs for years later than 1971 would be lower than those indicated.

TABLE 5-3. Estimated Net Transfer Cost and Population Receiving Payments of Universal Supplement Programs by Guarantee Level, 50 Percent Reduction Rate, 1971

Guarantee	Breakeven	Net cost[a] (billions)	Population coverage (millions)	
			Households	Persons
$2000	$4000	$3.5	7.8	26.9
2400	4800	5.9	10.5	36.8
2800	5600	9.3	13.5	48.1
3200	6400	14.0	16.7	60.2
3600	7200	20.0	20.5	74.6
4000	8000	27.5	24.2	88.3

[a] Cost estimates are net of offsetting savings in existing programs to all levels of government.

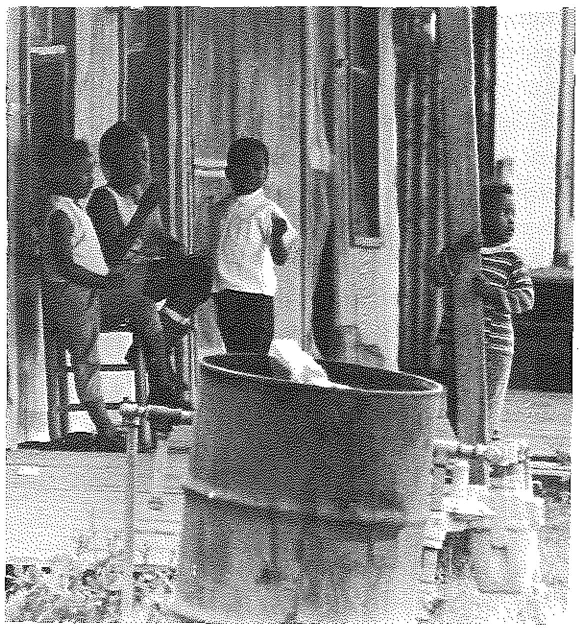


TABLE 5-4. Estimated Effect of New Income Supplement Plan on Poverty Income Deficit [a], 1971

(in billions)

Poverty income deficit	Guarantee level					
	$2000	$2400	$2800	$3200	$3600	$4000
Before program	$9.2	$9.2	$9.2	$9.2	$9.2	$9.2
After new program	6.1	4.8	3.7	2.8	2.1	1.6
Reduction	3.1	4.4	5.5	6.4	7.1	7.6
Percent reduction	34%	48%	60%	69%	77%	83%

[a] Poverty income deficit is the aggregate dollar gap between the actual income of the poor and the poverty line. Estimates are based on a projected growth in the poverty level of 2.7 percent per year due to price increases.

TABLE 5-5. Estimated Reduction in Poverty Income Deficit per Dollar of Net Program Expenditure, 1971

(in billions)

Program measure	Guarantee					
	$2000	$2400	$2800	$3200	$3600	$4000
Reduction in gap	$3.1	$4.4	$5.5	$6.4	$7.1	$7.6
Total net cost	3.5	5.9	9.3	14.0	20.0	27.5
Reduction/cost	.89	.75	.59	.46	.36	.28

Effects on Poverty

Clearly, any program which provides for an income guarantee below the poverty level will not eliminate poverty. But programs tailored closely to family size and income have the effect of channeling the bulk of payments to the poorest, and most of the money will go to the poor. The higher the level of the programs, the greater the reduction in the poverty income deficit of the poor. Table 5–4 shows the effects of introducing the new program, again for 1971. Even the lowest level shown—which lifts very few people from poverty—has a rather large effect on the income gap of the poor.

Table 5–5 shows, as a rough measure of program efficiency, the proportion that the reduction in poverty deficit is of total program net costs. While less than 100 percent, the efficiency ratios are quite high compared with extension of any existing program.[1]

As would be expected, the proportion of benefits filling the poverty gap declines as the program level rises. Inherent in this type of program is a tapering off of benefits as income rises to preserve financial work incentives rather than an abrupt cutoff at the poverty line. As the guarantee level is set higher, the breakeven income level rises above the poverty line and supplementary benefits go increasingly to the nonpoor (but still to low-income persons). In the case of the program guaranteeing $2,400 to a family of four, supplements are paid to such families up to $4,800—which exceeds the projected poverty line of approximately $3,900 for a family of four in 1971.

Administrative Costs

Administrative costs for the recommended program are estimated to be less than 3 percent of Federal payments to recipients—or approximately $200 million.[2] Under current Public Assistance programs administrative costs are ap-

[1] For a discussion of such measures applied to current programs, see U.S. Department of Health, Education, and Welfare, Office of Assistance Secretary (Program Coordination), *Income and Benefit Programs,* October 1966.

[2] U.S. Treasury Department, Internal Revenue Service, "Administrative Cost Estimates for an Income Supplement Plan," unpublished paper prepared for Commission, August 8, 1969.

proximately 15 percent. The difference reflects the simpler eligibility terms for the recommended program than currently apply to Public Assistance. Administrative costs are directly proportional to the complexity of eligibility determination.

Review of Program Operation

The basic income support program recommended by the Commission, if enacted, would represent only a first step toward assuring an adequate income for all persons. In years to come many modifications will have to be made in the design of the program if it is to be an effective basis for a system of income maintenance.

In order to provide for continuing systematic evaluation of the program as conditions and opportunities change, the Commission recommends that the legislation establishing the program create a permanent review commission.

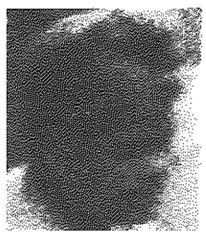
The review commission should reevaluate program adequacy periodically and make recommendations on changes in both program levels and benefit reduction rates. Since poverty is a relative measure which depends on the values and resources of a society, our notion of an adequate income guarantee undoubtedly will change and the review commission continually should seek to define benefit levels relevant to the prevailing standard of living.

The other major function of the review commission would be to determine methods of increasing the program's operational effectiveness. Even with research and careful planning it is impossible to design a new program that will operate perfectly in every respect. Providing every family with the right to a minimum income is a significant innovation which should be undertaken. It may, however, present unforeseen administrative, legal, economic, or behavioral problems. Only experience with the program itself can indicate the changes that will have to be made if benefits are to be increased to adequate levels.

The review commission should report annually to the President and the Congress on the operation of the program, and any needed changes. It should be independent of the agency administering the program and of other Government agencies. Such independence would insure that day-to-day operating considerations of the administering agency would not infringe on the objective evaluation required.

Chapter 6

An Income Security System



Enactment of a universal income supplement program automatically would replace part of existing cash assistance programs, and eliminate or reduce many of the inequities, inadequacies, and inefficiencies in Public Assistance and other programs. With basic income support of the poor provided through an independent program, employment and social insurance programs could be focused on their primary objectives, instead of being modified to help the needy. Public Assistance could take on the role in which personalized administration would be appropriate: providing emergency aid and meeting special needs created by individual problems. Finally, the pressure to create special programs for special groups in need—such as farmers, veterans, migrants, or the aged—would be reduced. While programs for special groups might be called for, they would have to be justified on the basis of needs above and beyond general needs. A special program could not be justified because a group needed income—the universal supplement would provide that—but only if that group clearly needed more income than other needy people.

The role of other social and economic programs is outlined in this Chapter.

Employment

Programs enabling people to advance economically through training and employment will continue to be essential in a society that has chosen to guarantee all of its members a minimal standard of living. The implementation of our recommended plan would strengthen rather than reduce the need for employment and manpower programs. Indeed, because our program would

provide the poor with incentives to work and to increase earnings, the failure to offer job opportunities and employment services would be a serious omission. By helping low-wage workers, the unemployed, and those not in the labor force, strengthened manpower programs could decrease the cost of the income support program, and could play a major role in eliminating poverty. Moreover, such programs are needed not only for the poor, but also for the nonpoor who must adapt to continuously changing technology and labor market requirements. Thus, continued development and growth of programs that assist individuals to increase earnings is an essential feature of a broad economic security system.

Labor Demand

The success of manpower programs requires continuous strong market demand for the services of program graduates, and for the low-skilled in general. Such labor market conditions are most likely to exist in a full-employment economy. Consequently, the Commission recommends continued pursuit of fiscal and monetary polices which ensure the steady growth of employment opportunities within the contraints imposed by the goal of reasonable price stability. The Commission also recommends that both general economic policy measures and specific manpower programs increasingly be directed at reducing inequality of employment opportunity. Such recommendations are not novel or original, but they are worth repeating since they are vital to the creation of a successful program of income generation and maintenance.

Coordination and Rationalization of Manpower Programs

Greater coordination and integration at all levels of government are necessary for the succeess of manpower programs. The multiplicity of Federal funding sources, for example, encourages inefficiency and competition among agencies at the Federal level and among programs at the local level.

Manpower and training programs are relatively new, and their effectiveness has been varied. Future development of these programs should be more systematic and coordinated. This will require careful planning and evaluation. It seems desirable to vest responsibility for funding, planning, coordinating, and evaluating all such programs in one Federal agency.

Similar coordination is equally desirable at the local level where potential users of services come into contact with a multiplicity of agencies offering a wide range of services. Local operations should seek to establish a single point of contact between the user and the source of all manpower services. Thus, at one location, an individual's training needs could be determined and he could be directed to the relevant services, such as testing, skill training, placement, relocation assistance, and the like. The potential benefits of operating local manpower service distribution programs in conjunction with local facilities providing other social services also should be investigated.

Training and Work Experience Programs

At present, training and work experience programs are major components of the United States manpower system. Programs based on the work experience concept provide the participant with useful paid employment and some training, but are designed primarily to instill good work habits and motivation. Although experience with these programs is limited, the available evidence seems to indicate that training-oriented programs produce greater benefits relative to cost than do those programs based on the work experience concept. While education, training, and work experience basically complement one another, the apparent inferiority of the last leads the Commission to favor reallocation of limited funds toward on-the-job training and institutional training programs.

Participants in institutional training programs generally are paid a training allowance—which is a form of income support. Recipients of income

support under our proposed program should be encouraged to accept training to improve their earning capacity. Training allowances for those enrolled in institutional programs should be disregarded in calculating both income supplements and income tax liabilities. This will provide a strong incentive to enter and to complete institutional training programs.

Jobs in the Public Sector

This country has experienced a rapid growth in the demand for public services which has caused a shortage of trained professionals to dispense these services. This in turn is creating a rich source of future employment opportunity for subprofessional workers at all levels of government. Many of these positions could be filled by training persons who are presently untrained and unskilled. To achieve this, however, special emphasis must be placed on the redefinition of jobs and the creation of new entry level "trainee" positions in government. Such a change in governmental job structures can be accomplished through a program patterned after the New Careers and the Jobs in the Business Sector programs. A Jobs in the Public Sector program simultaneously might satisfy the projected demand for subprofessionals and provide socially productive jobs for many persons otherwise lacking opportunities for self-improvement.

Too little is known about the proper ways to utilize the government as an employer to enable us to make specific program recommendations. However, large-scale experimental programs and pilot projects of more than token dimensions should be undertaken to help develop the knowledge and data needed to evaluate the long-run potential of such programs.

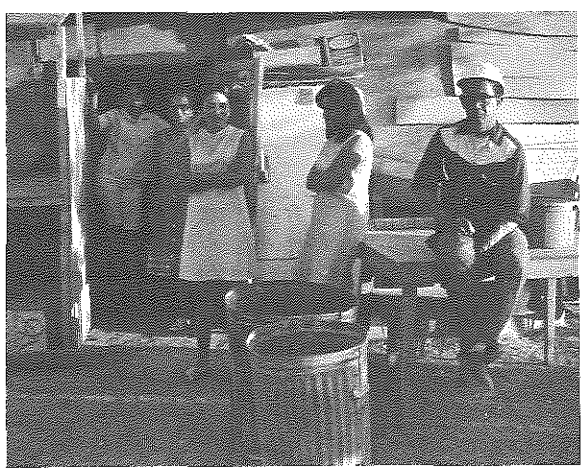
The Training and Employment Service

The Federal Government can make a substantial contribution to the total antipoverty effort by helping to improve the labor market position of disadvantaged groups. By undertaking this task the United States Training and Employment Service (formerly the United States Employment Service) not only could aid disadvantaged groups but could increase the efficiency of the entire labor market by providing more and better information to those demanding and supplying labor.

To insure that the quality of services is enhanced and to improve cooperation among local and regional offices of the TES, the Commission recommends that the operation of the TES be Federalized. The funds are provided fully by the Federal Government already, but little control or supervision is exercised over these programs and the same variations that appear in Public Assistance programs exist in operations of local employment and training offices. Expansion of such operations, unless accompanied by reforms, would make these variations worse.

Other specific TES reforms which the Commission endorses are as follows:

- Outreach programs that find the hidden unemployed should be expanded.
- Testing and counseling should be developed to deal with the population they are supposed to serve. Tests designed for middle-class white persons have not been appropriate for use with Blacks or Puerto Ricans, for example.
- Besides counseling, testing, and referral of applicants, the TES should provide relocation aid—cash aid as well as counseling and follow-up services.
- Attempts to induce employers to register job vacancies with the TES should be increased.



Equal Employment Opportunity

Federal action against discrimination can help make the labor market a more viable means for minority group members to escape poverty. Unemployment, underemployment, and low wages—all prime causes of poverty—often are rooted in discrimination.

While urging strenuous action on behalf of equality of opportunity in the labor market, the Commission specifically recommends more vigorous enforcement of antidiscrimination clauses in Federal contracts. In addition, the Equal Employment Opportunity Commission should be given the power to issue cease and desist orders when evidence of discrimination is uncovered in its investigations.

Conclusion

Perhaps the most important point to note when reviewing manpower programs in the United States is that they are relatively new and in many cases experimental. The potential value to society of an efficiently functioning manpower system is unquestioned; it is the proper role of individual programs within the system which must be determined. This can best be achieved by continuing experimental programs along with expanding operational programs that have proven successful. Consequently the Commission recommends that on-going experimentation and innovation within the system be encouraged. Continued review and evaluation of these programs with a perspective broader than that of any particular agency is required.

Total costs that might be added by expansion in these program areas would depend on the scope and expansion of services offered. Increased services in these areas are clearly justified. So long as we require people to earn most of their incomes, we must provide them with access to employment opportunities. And, as long as patterns of labor demand shift over time, individuals—regardless of whether poor or not—must be provided with opportunities to adapt to those changing demands.

Social Insurance Programs

The major Federal social insurance programs have been stretched to compensate for the absence of a general income supplement plan. There are several changes which should be made in conjunction with the inauguration of universal income supplements.

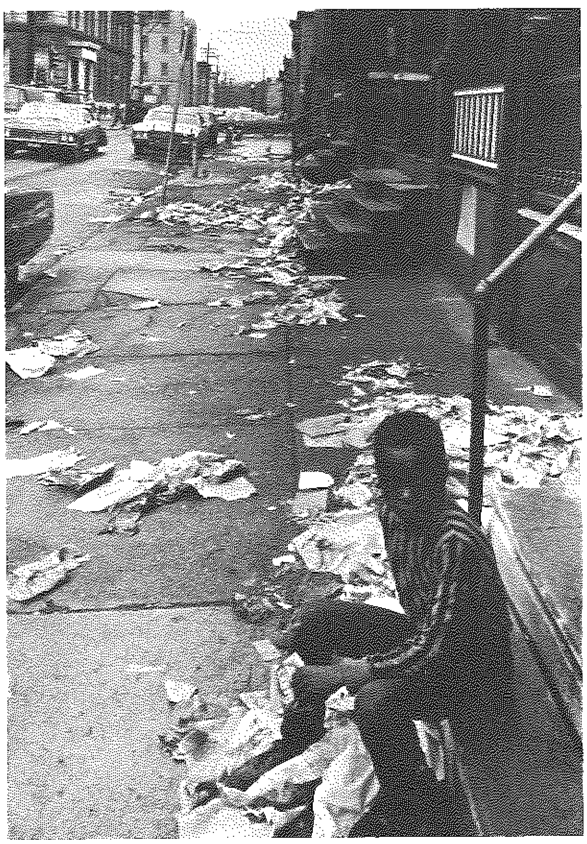
OASDI Objectives

The present Old Age, Survivors, and Disability Insurance program (OASDI) seeks simultaneously to provide a minimum adequate income for beneficiaries, to preserve earlier living standards of beneficiaries, and to require contributors to pay the costs of anticipated benefits. These objectives are not fully consistent.

To provide an adequate retirement income through this program, a minimum benefit must be established which may have to be quite unrelated to an individual's contributions or prior earnings. To preserve an individual's standard of living, benefits must be related to the most recent earnings of the insured worker which are usually his highest earnings. But equity in a contributory system requires that benefits paid be related to contributions made over the entire working career, although benefits determined on this basis can be adjusted as general earnings levels change. The effort to provide a minimum adequate income in the OASDI program distorts the relationship between benefits and contributions or earnings. This is particularly true in the case of dependents' allowances for wives, who are entitled to an amount equal to 50 percent of their husbands' OASDI benefits. For husbands with identical average earnings, a couple in which the wife never has worked may receive the same benefits as a couple in which the wife has worked and paid OASDI taxes, because the working wife's earnings record may entitle her to an earned benefit less than she is entitled to automatically as the wife of an OASDI contributor. Dependents' allowances unrelated to contributions are justifiable if the objective of the program is to provide a minimum adequate living standard.

Dependents' allowances paid on this basis are, however, a departure from principles of individual equity.

The absence of a good alternative income maintenance program to assure all households a minimum income has been partly responsible for the introduction of redistributive elements into this program to meet social goals inconsistent with the concept of earnings-related social insurance. Once a universal income maintenance program has been established to assure all households a minimum adequate income, the Commission recommends that benefit formulas under the OASDI program be reassessed to remove those features that reflect attempts to redistribute income to those in presumed need. The Commission also recommends that the Social Security Advisory Council consider changes in the structure of OASDI benefits which would be required upon adoption of a universal income maintenance program.



Unemployment Insurance

Our recommended income supplement plan is designed primarily to aid the low-income or intermittent worker, those chronically unemployed or unable to work, and those not in the labor force. This plan should not be expected to meet the needs of short-term unemployed workers or to provide for other emergency cash needs. Unemployment Insurance should continue to provide short-term income protection for many people, including those whose income would be too high to qualify for income supplements. In any case this social insurance program exerts a significant stabilizing effect on the economy by supporting purchasing power in periods of slackening demand.

As noted earlier, however, Unemployment Insurance programs are hampered by major gaps in worker coverage and by low benefit level in many States. To achieve a comprehensive income maintenance system the Commission recommends that Unemployment Insurance be extended and expanded to accomplish the following goals:

- Provide broader coverage of wage and salary workers. Protection of income during short periods of involuntary unemployment for persons at all income levels is important to the workers and to the economy. A large part of the labor force should not be denied coverage.
- Provide more equitable treatment of the unemployed among all the States. As with Public Assistance, State variation is a problem in this essentially Federal program. National minimum standards for the determination of eligibility and disqualification rules, weekly benefit amounts, and duration of benefits, would eliminate this problem.
- Provide benefit levels which adequately replace income during short-term unemployment for all covered workers.

Cash Transfer Programs

Categorical Public Assistance

Public Assistance, by default, has developed into a means of supplementing chronic low incomes of certain groups. As the major program

providing cash benefits based on need, its gaps in coverage and administrative difficulties have come under sharp criticism. But efforts to reform the system have been impeded by the fact that it is essentially a State-option program.

The Commission recommends that Federal participation in existing Public Assistance programs be terminated. In many States, current Public Assistance benefit levels exceed the proposed Federal income supplement program. The Commission feels that these States should continue to pay supplementary benefits up to current standards with their own funds. Because the Federal Government directly pays 100 percent of the costs of a basic income support program, States will save an estimated $1 billion of what they would spend for Public Assistance, even if they supplement Federal payments up to current welfare standards for current recipients. All of the States that would pay supplementary benefits would still have reduced demands on their own funds.

If it appeared likely that some States might reduce benefits from current levels, Federal matching funds could be continued until the level of the direct Federal income supplement program reaches adequate levels. We do not think such matching is needed or desirable, however. The same factors that have led some States to adopt high standards can be expected to result in continuation of their current levels. And those States with inadequate programs probably would not wish to supplement the Federal program even if matching funds were available. One objective is to replace the existing categorical Public Assistance system, and move the level of benefits under the Federal program towards adequacy. Federal funds should be applied towards this objective rather than be used to extend the Public Assistance program.

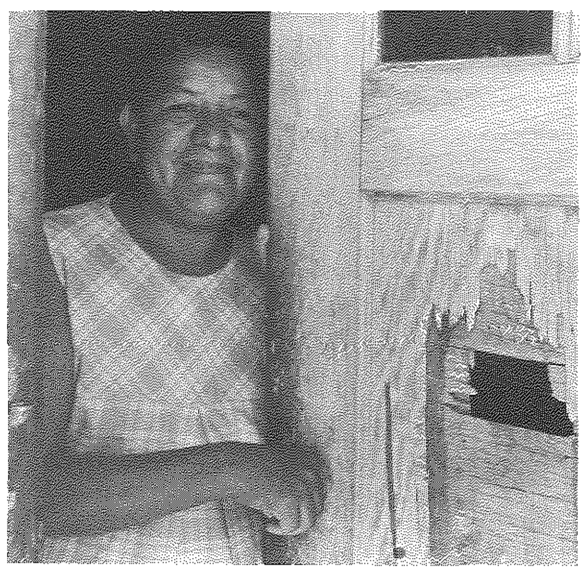
A New Program of Temporary Assistance

We are aware that Federal withdrawal from Public Assistance means that some States with benefit levels below those of the new Federal program may abandon many of their current programs. In those States, current assistance recipients still would be better off under the new Federal program than they were under the previous State programs. But abandonment of these programs may leave unprotected those people who have exceptional emergency needs or who suffer a sudden large drop in income. For such people, the Federal income supplement program cannot extend aid as rapidly and as sensitively as a locally-administered assistance program. Locally-operated programs to provide "instant aid" are needed for those with sudden needs.

To encourage the development of such programs on a State basis, we recommend that the Federal Government should participate financially in State programs that meet the following criteria:

- The program must be noncategorical, covering all persons without demographic or other distinctions.
- Assistance should be based on a simple test which takes into account income and assets.

States providing short-term aid would be required to provide such aid to all persons in need. Imposition of work requirements for employable persons might be appropriate since a short-term emergency aid program at even a low level would be vulnerable to abuse.



The Federal Government would reimburse the States for 50 percent of the special assistance benefits paid to each individual, up to the basic benefit level of the Federal income supplement program. Thus, the Federal Government would contribute to State programs only to the extent that they are short-term in nature. Individuals with incomes exceeding the guarantee level of the Federal income supplement program would be ineligible for supplementation from a Federally-financed State emergency assistance program.

Estimated total cost of such a program would be $600 million, of which the Federal share would be $300 million.

Income-in-Kind Programs

The enactment of a cash income supplement program would not allow the Federal Government to drop most income-in-kind programs immediately. Some of these programs could be phased out in time, while others might be continued and improved in order to meet basic social needs.

Housing

There is a shortage of adequate housing available to the poor. Only a small percentage of the poor are served by present housing programs. Since any significant reduction in the costs of construction and occupancy because of technological developments will take some time, Federal subsidies will remain necessary to bridge the gap between marketplace costs for standard housing and prices that lower-income families can afford to pay.

This Commission concurs with the analyses and recommendations of both the President's Committee on Urban Housing and the National Commission on Urban Problems. Construction of more subsidized low-income housing through the private sector is necessary, and is preferable to more public housing projects.

For the immediate future, large-scale Government involvement in housing programs is essential to complement the basic income supplement plan. While additional income would enable more poor families to obtain somewhat better housing in the private market, it is likely that continued direct Government action will be required until there is significant improvement and expansion of the housing supply.

Health Programs

Government health care programs will continue to be needed to promote the well-being of both the poor and nonpoor. The poor cannot afford private health care, and even with adequate incomes they would be unable to meet high nonrecurring costs of major illnesses without aid. Moreover, since disability and illness force many families into poverty, the health of the nonpoor is also a vital concern. Thus, health care programs cannot be supplanted by cash income support.

Existing health care programs have inherent structural flaws: they are categorical, providing free or subsidized medical care to some but not to all who are in equal need. Moreover, Medicare and Medicaid do not meet all of the needs of those eligible for assistance. The existing programs are dependent ultimately on an industry which has lacked the capacity to meet large increases in the demand for its services. Medicare and Medicaid have reduced the financial burden of obtaining adequate health care for many of the aged and the poor. But these programs have raised the cost of health care for many other people. By enabling the poor for the first time to purchase adequate health care, the prices of a relatively fixed supply of health care services have been bid up; it is the near-poor who have been hurt most by this process.

Complete health care coverage is an elusive concept. Very few insurance programs come close to providing it, although in several States Medicaid promises such care. Hospital insurance, the most widely held form of protection, generally does not cover the full costs of catastrophic illnesses. Because the poor and near-poor lack access to private coverage more frequently than other

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income groups, they are most vulnerable to the financial hazards of major illnesses. Medicaid has not protected them adequately and cannot do so without expenditures much higher than the current level. While Medicare has paid for much of the hospital and post-hospital confinements of the elderly, the burden of drugs and physician fees still rests largely with them. For the elderly poor, the $4 monthly premium for medical insurance, coupled with deductibles and drug costs, is a severe burden. In only a few States are these premiums paid for the aged poor by welfare agencies.

Meeting basic income needs of the poor will reduce their health care problems somewhat. But this will not increase immediately the supply of health services or cover the costs of short-term and catastrophic illnesses, two problems which plague both the poor and the nonpoor. These problems—and the role the Government should play in solving them—are of great importance. This Commission has not developed a specific program to assist in the financing of medical care. But we feel that such programs are needed, and recommend that the Administration complete the studies now underway to develop them.

Food Programs

The Food Stamp and Commodity Distribution programs, unlike other in-kind programs, could be replaced easily by a well-designed cash transfer plan. These programs supplement incomes but do so much less efficiently and with less consumer choice than direct cash transfer programs; they improve living standards only by increasing food consumption. So long as total income remains inadequate, there will be a tendency for recipients either to substitute free food for their former food purchases or to eschew any food program which requires a fixed outlay for food and hampers their ability to adjust expenditures to meet other family needs. Normal market channels are efficient suppliers of food products. Government intervention is not necessary to assure a supply of food for low-income households as long as those households are able to afford market prices.

We recommend that special food programs that provide food to poor families and individuals—Surplus Commodity Distribution and Food Stamps—be phased out with the introduction of a program directly supplementing cash income.

Social Services

For the past 30 years, Government has been the principal source of a continually expanding range of social services which are provided to the nonpoor as well as the poor. Some services are now part of Public Assistance programs, while many others are provided under a variety of auspices.

It is difficult to deal with this area because of the lack of an adequate definition of services. Current programs add little to our knowledge: most of the activities labeled services under Public Assistance, for example, are actually closely related to program administration.

There are three general types of social services. First, there are services of a surrogate nature, such as homemaker services or day care, aimed at enhancing an individual's ability to function socially. The second type of social services are informational and referral activities which attempt to establish a link between an individual's need and existing community services such as legal aid, housing, and medical assistance. Finally, there are clinical social services, which include psychological, psychiatric, and casework counseling.

The Commission feels strongly that all three types—surrogate, informational, and clinical—have to be provided as a necessary complement to an efficient and effective income maintenance system. But the delivery of services should not be attached to income support. Useful services should be justified on their own merits.

Services cannot be a substitute for adequate incomes; they cannot pay rent or buy food for a poor family. Yet Public Assistance programs frequently have offered services in lieu of adequate benefit levels. Moreover, grants too often have required the acceptance of social services. This reduces or eliminates the trust and confidence between professional social worker and client which

is essential for successful social service work. Commission members were impressed by the testimony of both social workers and clients which pointed out that the utility of social services often has been impaired by the link with cash income support.

The Commission recommends the adoption of a new system of Federal grant-in-aid programs to distribute needed social services equitably throughout the Nation, but which does not allow these services to be used as substitutes for adequate benefits or as devices for coercion and social control of the poor. To accomplish this:

- Receipt of social services must be voluntary except for services which are inherently coercive and which are imposed through due process of law, such as probation or parole.
- Experimentation with different forms of organization and delivery systems—including direct vouchers to recipients to allow them to choose the services they wish to purchase and to choose the supplier of those services—should be encouraged and funded by the Federal Government.

The Commission believes that cash income is the primary instrument for the creation of economic security; however, cash is a necessary but not a sufficient instrument. In a complex industrialized society some low-income citizens are undereducated, inexperienced, overwhelmed, and defeated. As a result, they may be exploited, demeaned, and discriminated against by institutions which should be serving them.

The Commission has found that many of the poor have very limited access to information. They have never been told what rights they have by law, how to find bargains on food, where to obtain free medical service. Programs tailored to provide information, education, and even specific assistance (such as legal defense) would help the poor better to utilize and to increase their limited resources.

We were struck by the overwhelming array of places poor people must go for the services they need. Often the various service agencies are far from one another and from the poor neighborhoods; to get there clients must expend considerable time, energy, and money. The Commission feels this situation must be remedied.

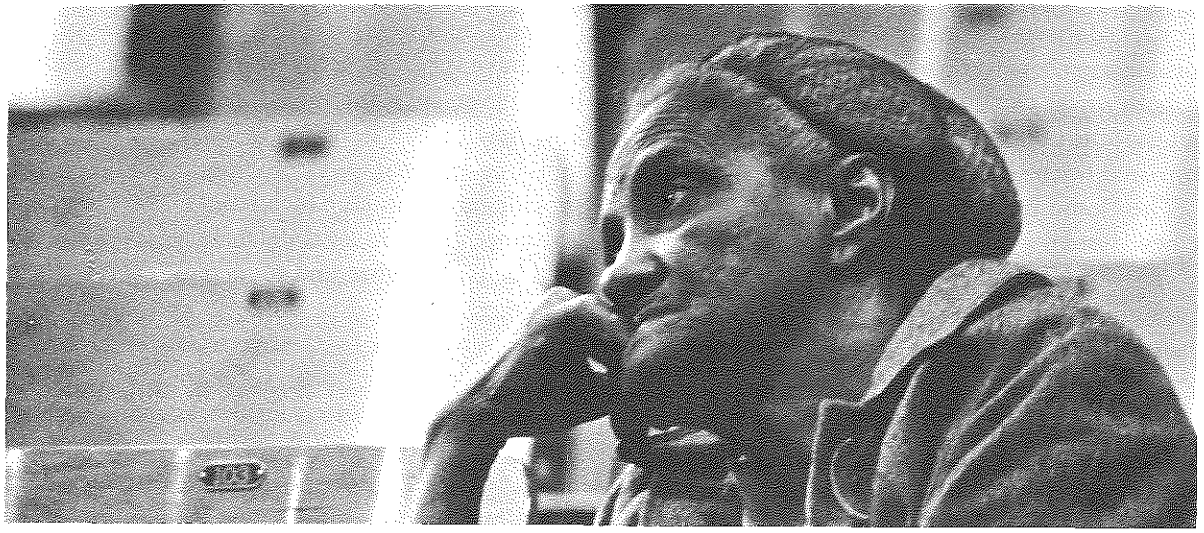
We recommend that the basic services provided through Federally-aided programs be included in multi-purpose urban neighborhood service centers which would provide a single location from which social services could be dispensed. These neighborhood service centers also could provide information and referral services, have outlets for manpower programs, and provide space for clinical services.

These recommendations could be financed initially with the $500 million that the Federal Government now spends for administration, services, and training in Public Assistance programs.

Other Programs

Problems of adult poverty today largely reflect the failure of programs that dealt with children yesterday. The children of the poor tend to remain poor themselves as the cycle of poverty becomes increasingly difficult to break. America's traditional paths out of poverty are becoming harder to follow as unskilled jobs disappear and the length of time required for education and training for decent jobs extends beyond the ability of poor families to absorb the costs.

We have seen that services available to the poor tend to be inferior—whether in health, education, or welfare. The poor have the worst nutrition. Poor children generally go to schools that are run



down, poorly maintained, lack supplies and facilities. Often these schools are staffed by teachers who are unable to find assignments in better schools.

To ensure greater opportunity for poor children to break the cycle of poverty, we must direct programs to their needs. In part this means taking a new look at the failures of health, education, and welfare programs. Specific recommendations in this area are beyond the scope of this Commission's charter. We merely note that for a long-run solution to problems of poverty, the root causes of inadequate earning potential must be dealt with by Government programs.

Day Care for Children

The Commission has considered programs to provide day care to the children of working mothers. Such programs are important and worthy of discussion. The tone of current public debate is disturbing, however. Much of this debate has been focused on providing places to put children so that mothers on welfare can work. It is often proposed that day care be provided with the stipulation that mothers must accept work or training. The Commission cannot recommend extensive provision of day care for this purpose because it is costly, narrowly conceived, and coercive. Unless purely custodial care is to be offered, costs are quite high. Head Start program costs, excluding capital costs, provide a benchmark for estimating the cost of enriched care on a full-day, full-year basis for three to five-year old children. In 1968 these costs were approximately $1,700 per child. For children under three costs are higher because a greater adult-to-child ratio is necessary. The potential earnings of most AFDC mothers are not much more than the cost of day care for one child—but most such mothers have more than one child.

In 1967, 33 percent of children receiving AFDC were under 6. Thus it would cost $2.7 billion to provide these children with day care. If the half million mothers responsible for these 1.6 million children could work all year at the minimum wage, their total receipts would be only $1.6 billion. The net cost to society of providing day care for dependent children under 6 alone would amount to $1.1 billion to accomplish uncertain goals. A full-scale program for all poor mothers would be even more costly.

The Commission dislikes the coercion involved in requiring poor mothers to work regardless of their skills, abilities, and desires. The Commission therefore rejects the notion that day care should be provided so that women on welfare can be required to work.

While the costs of providing enriched day care are formidable, we recognize that many

women now work and many other women strongly desire to do so, including both welfare recipients and nonrecipients. We recommend efforts to develop adequate day care facilities for children at lower cost which could be available on an ability-to-pay basis. Pilot projects and experiments in this area would be very useful.

If day care is regarded as an important child development opportunity, then programs for young children can be seen as a universal extension of the concept of public education. This concept is worthy of exploration but detailed recommendations are beyond the scope of this Commission's responsibilities.

Family Planning

The Commission notes that for many families poverty is a result of having more children—frequently unplanned children—than the parents can adequately support. Yet family planning services are less accessible to the poor than to middle and upper-income families. In 1966 only 13 percent of the 5.3 million poor and near-poor women who could have benefited from family planning services were receiving them from any public or private agency,[1] and few of them received these services from private physicians. Yet such programs have relatively low costs and high benefits. Costs of services average $30 per woman annually. Five million poor and near-poor women could be helped for an annual cost of $150 million.[2]

Even if benefit-cost ratios were not favorable, incalculable human costs would be overriding. The human cost to individuals, to families, and to society of unwanted children growing into adulthood in poverty without hope or opportunities is enormous and the remedy is inexpensive. There is no reason to deny to the poor what is so easily purchased—the ability to plan family size.

The Commission recommends that the Federal Government rapidly expand family planning programs to make information and services available on a voluntary basis to all American women who want but cannot afford them.

Conclusion

The adoption of a basic program supplementing low incomes is a necessary component of a serious effort to eliminate poverty. Such a program should be enacted whether or not existing programs are changed. It would provide added income to many ineligible for aid under existing programs. Coupled with the changes and modifications in existing programs outlined in this chapter it would mold the old and the new programs into a coherent National economic security system.

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[1] Planned Parenthood-World Population, *Five Million Women: Who's Who Among Americans in Need of Subsidized Family Planning Services,* Planned Parenthood Federation of America, 1967.

[2] *Population and Family Planning,* Report of the President's Committee on Population and Family Planning, November 1968, p. 18.

Supplementary Statements and Appendices

Supplementary Statements by Individual Commissioners

Clifford L. Alexander, Jr., concurred in by David Sullivan and A. Philip Randolph

This is to express where I differ from majority recommendations of the President's Commission on Income Maintenance Programs.[1]

The Commission has recommended as a base income, as part of a universal income supplement program, that a family of four receive $2,400 annually. I recommend a base income of $3,600 for a family of four (two adults, two children.)[2]

[1] At a meeting of the Commission on May 15, 1969, my motion for substantially the same minimum as I recommend today was defeated. Subsequent to this, at each Commission meeting I have reiterated my position for a $3,600 minimum for a family of four.

[2] Figure of $3,600 is derived from the following computation: $1,125 per adult annually (as contrasted with $750 under the majority Commission report) and $675 per child (as opposed to $450 per child annually in the Commission's majority submission). Therefore, the amount of income a family of one adult with three children would receive annually is $3,150. A family of two adults and three children would receive annually $4,275, etc.

I believe there are two fundamental goals of the President's Commission on Income Maintenance Programs. One is the elimination of poverty for all Americans as soon as feasible. The other is the elimination in toto of a dehumanizing welfare system which turns millions of our citizens into skeptical beggars blamed for inadequacies not of their making.

Setting the base income at $3,600 for a family of four as opposed to $2,400 will substantially serve to accomplish our twin goals. The Government computation of the poverty level at present for a family of four is $3,553. Certainly, we should not set our sights at a level below the Government's poverty line.[3] The majority's $2,400 minimum level is by its own statement inadequate

[3] The present poverty level index allows $2.43 per day for a nonfarm person as part of a family of four to meet all living expenses. In contrast to the poverty index, a recent Department of Labor study found an urban family of four needs $4.05 per individual per day.

to meet individual needs. To strive for less than an adequate level is not to recognize the task we were given. On January 2, 1968, when this Commission was established, the following statement was made by President Johnson:

> The welfare system in America is outmoded and in need of a major change . . . Look into all aspects of existing welfare and related programs and make just and equitable recommendations for constructive improvements wherever needed and indicated. We must examine any and every plan, however unconventional, which could promise a constructive advance in meeting the income needs of all the American people.

Setting a bottom annual line of $3,600 could effectively eliminate welfare programs throughout the United States.[4] The $2,400 minimum recommendation of the full Commission would require the continuance of a supplemental welfare program in approximately 20 States. This would necessitate the expense of bureaucracies to run these remaining welfare programs. This could necessitate potentially complicated formulas for Federal assistance of State welfare programs. This would necessitate a complicated phasing-out of remaining programs if the base income were gradually elevated.

It is my belief that a program at the poverty level with financial work incentive features will tap the basic incentive of Americans to move ahead financially. I think the motivations and rewards of our capitalistic society will cause only a minuscule percentage to permit themselves to be supported solely by basic income supplements. The motivations that have moved us as a Nation will continue, and those same motivations will make any family of four feel inadequate with just $3,600. As the report indicates, it is an outrageous conclusion to assume that poor families and families on welfare are in that position because they are lazy. There are lazy among the poor just as there are lazy among the rich, but fortunately, for the sake of the future of this country, the great majority of our people feels a strong ambition and desire to work and advance financially.

Setting a basic minimum of $3,600 with potential increments for other monies earned will have an important and positive effect on our Nation. Though $3,600 will barely meet the food, housing, clothing, and other necessities required for a family of four, it will do far more than a minimum level of $2,400. People will be able to raise their heads up so they can see some of the benefits of our capitalistic system—with a realistic belief that obtaining economic security is more than a pipedream. In the very short run, it is my opinion that we can bear the substantial expense of this program. As the hopelessness that only poverty can create disappears (and that hopelessness will disappear rapidly with a $3,600 minimum for a family of four), Americans will strive to earn more money. It is my belief that these efforts will be successful and, as they are successful, those who are initially subsidized by our taxes will soon be paying taxes.

It is also important for all Americans to keep in mind that there are many others who receive subsidies today. Millionaire farmers are paid *not* to grow crops. Those who seek out our natural mineral resources are given large and significant ways of avoiding taxation. These forms of subsidies or "welfare," if you will, are provided in order that certain goals may be achieved. In the case of our natural resources, it is so that there will be an incentive for businessmen to develop these resources and put capital into such ventures. When we think of the expenses involved in providing a minimum level for each American, there are several potential benefits for all of us.

First, we are doing what we should do for our fellow man. Second, we are rapidly helping to create a class of people who will be able to move up in a mobile society. Third, we will be eliminating much of the hopelessness that now affects 25 million human beings who are poor. Fourth, we will be establishing in our National economic priorities a sense of what comes first; i.e., the welfare of each individual American. The elderly childless couple in need, for example, will not be

[4] The States with the highest welfare programs now pay a family of four a little over $3,500 annually.

asked arbitrarily to suffer because of not having children—benefits will be felt across the board. Each individual will be on at least a minimum level, and the vast majority will certainly strive to move well beyond that minimum.

Margaret S. Gordon on Day Care, concurred in by Anna Rosenberg Hoffman[5], Geri Joseph, and David Sullivan

I believe that the case for a broad and adequately financed Federal program to encourage the formation and expansion of day care centers for the children of working mothers is far stronger than the Commission report indicates. It is true that the report recommends "efforts to develop adequate day care facilities for children at lower cost which could be available on an ability-to-pay basis," but it does so in the context of a discussion which fails to place enough emphasis on the glaring shortage of child care centers in the United States and which stresses the undesirability of forcing welfare mothers to accept work or training by providing child care centers for their children. I strongly agree that a child care center program should not be developed for purposes of compelling welfare mothers to work, but I am emphatically in support of an adequate program of child care centers which would make possible, for all low-income to lower-middle-income mothers, a *reasonable freedom of choice* between working and not working.

Debate about this issue is often confused as a result of disagreement over whether mothers of young children should or should not work. In my view, there is no single answer to this question that is the right answer for all mothers. Many mothers of young children, whether in one-parent or two-parent families, have skills and training which they could use to good advantage to improve the family income position and contribute to the output of goods and services in the Nation, but they are prevented from doing so by the high cost of private child care in the home—and, in a society in which the percentage of workers in domestic service is falling rapidly, by the absolute unavailability of competent domestic help in some areas. There are other mothers who would like an opportunity to enter a training program to upgrade their skills but cannot afford the cost of child care in the home while participating in training. These mothers and their children would in many cases be better off if the mother could satisfy her desire to use or acquire skills and make a significant contribution to the family income, rather than endure the frustration of being forced to stay at home with children. In other cases, mothers much prefer to be at home with their children, and they and their children both benefit from this arrangement. In its public hearings, the Commission heard eloquent testimony from low-income mothers (chiefly welfare mothers) with both points of view—(1) those who declared emphatically that they were perfectly capable of holding a good job if only the problem of child care could be solved and (2) those who indicated that they wanted to care for their children themselves and that their chief need was for a more adequate welfare payment.

I do not propose that public funds should be used to provide free care in day care centers for all children of working mothers. I do believe that there is a strong case for subsidized child care in such centers for the children of low-income mothers on the basis of a sliding scale fee which would vary with income, that above a certain stipulated income level a full-cost fee should be charged, and that families with income above a certain maximum should not be eligible for participation. The fees might also be higher for parents with few children than for parents with many children. An example of such a sliding scale fee schedule, used in the publicly supported State-local system of child care centers in California, is presented on the following page. The chief problem with the California program is that it does not begin to meet the need. In a State in which education and other costs associated with a rapidly growing population have been rising

[5] Mrs. Hoffman concurs with this statement in principle without endorsing the specific features of the California system used as a model.

Children's Centers Hourly Fee Schedule Effective October 20, 1969, State of California

Family income (monthly)		Parent, parents, or guardian plus number of minors in family: 2		3		4		5		6		7 or more
		Hourly rate										
$ 1 through $100		$.05		$.04		$.04		$.03		$.03		$.02
101 " 133		.06		.05		.05		.04		.04		.03
134 " 166		.08		.07		.06		.04		.04		.03
167 " 200		.09		.08		.07		.06		.05		.04
201 " 233		.10		.09		.08		.06		.05		.04
234 " 266		.11		.10		.09		.07		.06		.05
267 " 299		.13		.12		.10		.08		.06		.05
300 " 330		.15		.14		.12		.09		.07		.06
331 " 363		.17		.15		.13		.10		.08		.07
364 " 396		.19		.17		.15		.12		.10		.08
397 " 429		.21		.19		.17		.14		.12		.09
430 " 463	($463)	.23		.21		.19		.15		.13		.10
464 " 496		.26[c]		.23		.21		.16		.14		.11
497 " 529	....	.28		.25		.23		.17		.15		.12
530 " 547		.30	($547)	.27		.25		.18		.16		.13
548 " 581		.32		.30[c]		.26		.19		.17		,14
582 " 613		.33	....	.31		.27		.20		.18		.15
614 " 631		.34		.32	($631)	.28		.21		.19		.16
632 " 648	---------	.35	($648)	.33		.30[c]		.22		.20		.17
649 " 697		.36		.34	....	.31		.24		.22		.19
698 " 715		.37		.35		.32	($715)	.25		.23		.21
716 " 732	---------	.38	---------	.36	($732)	.33		.27[c]		.24		.22
733 " 781		.39		.37		.34	....	.28		.25		.23
782 " 799		.40		.38		.35		.29	($799)	.26		.24
800 " 816	---------	.41	---------	.39	---------	.36	($816)	.30		.28[c]		.25
817 " 865		.42		.40		.37		.31	....	.29		.26
866 " 883		.43		.41		.38		.32		.30	($883)	.27
884 " 900	---------	.44	---------	.42	---------	.39	---------	.33	($900)	.31		.29[c]
901 " 949		.45		.43		.40		.34		.32	....	.30
950 " 984		.46		.44		.41		.35		.33	($984)	.31

[c] Indicates income range for computed fee for one-parent family.
.. Indicates beginning of full cost fee for one-parent family.
— Indicates beginning of full cost fee for two-parent family.
= Computed fees for one-parent family with income up to $66 over the "means test". One-parent families with income in excess of the "means test" ceiling as defined in Section 16604 (b), shall pay for each $11 of the first $66, one-sixth (1/6) of the difference between the appropriate "means test" fee and the "full cost" fee of the district.

Full Cost Fees. Fees for eligible families whose income exceeds the requirements of Section 16604 must be in accordance with Section 16605. Family income may not be greater than three times the amount fixed by Section 16604 of the Education Code. Districts shall charge and collect fees which shall be in such amount as will reimburse the district for the cost of supervision, instruction and cost of all food furnished such child.

Eligibility is based on a 5-day week or an average income for the calendar year. Fees are computed on actual current income as indicated on the above schedule.

Computation of weekly fee for families enrolling two or more children. For families enrolling two children the hourly fee for each child after the first child shall be computed at one-half the hourly fee for the first child.

Source: State of California, Department of Education.

sharply, the State Legislature has not tended to give high priority to the expansion of appropriations for this program. Average statewide attendance in 1969–1970 is expected to amount to only 20,000 children, despite the opening of 60 new centers. Some of these children are of school age and receive care only in the early morning and following the end of school in the afternoon.

A nationwide survey conducted in 1965 indicated that less than 8 percent of children of full-time working mothers who were under age six were cared for in a group care center, while in the case of children age 6 to 13—an age group

needing after-school care—less than 1 percent participated in such a center. These percentages were much smaller for children of part-time working mothers. The survey indicated the following pattern of child care arrangements for children under six years of age whose mothers worked full-time: [6]

	Number (in thousands)	Percent
Total	2,561	100.0
Care in own home, total	1,209	47.2
Care by:		
Father	264	10.3
Other relative	472	18.4
Under 16 years	25	1.0
16 years and over	446	17.4
Nonrelative who only looked after children	238	9.3
Nonrelative who usually did additional household work	236	9.2
Care in someone else's home, total	954	37.3
Care by:		
Relative	452	17.6
Nonrelative	502	19.6
Other arrangements:		
Care in group center	197	7.7
Child looked after self	7	0.3
Mother looked after child while working	171	6.7
Mother worked only during child's school hours	12	0.5
Other	10	0.4

It is disturbing to observe that as many as 7,000 of these young children were left to look after themselves, while as many as 25,000 were left in the care of a relative under 16 years of age. Much more widespread, however, is the problem of children aged 6 to 13 who are left to look after themselves, presumably before school begins in the morning and following the close of school in the afternoon. Nearly 800,000 of these older children of full-time working mothers, or 14 percent of all the children in this group, were left to look after themselves.

How did the pattern of child care arrangements vary by family income? If we consider the children under age six of all working mothers (full-time and part-time), we find that 5.4 percent received care in a group care center. The proportion rose, though irregularly, from 3.4 percent in families with annual income of less than $3,000 to 7.7 percent in families with annual income of $10,000 and over. Thus children in poor families were less likely to receive care in a group center than children in nonpoor families. But the most clear-cut influence of family income, as might be expected, was on the proportion of children who received care from a nonrelative in the home—varying from 8.3 percent in families with annual income under $3,000 to 25.3 percent when family income was $10,000 or more.

Although the total capacity of child care centers in the United States undoubtedly rose somewhat between 1965 and 1969, impressions gained from scattered local surveys conducted quite recently suggest that the change was not very great.

Not only did a number of the mothers testifying at the Commission's public hearings stress the need for child care centers, but over the years research on AFDC cases has provided substantial evidence of the need. These studies have indicated that the majority of AFDC mothers expect and want work, but that pregnancy, illness, child-care problems, and the termination of a job are the most frequent reasons why their employment is interrupted.[7]

However, as suggested above, the case for expanded public support for child care centers does not rest solely, or even primarily, on the needs of welfare mothers. It rests on the needs of large numbers of mothers, in both one-parent and two-parent families, in low-income and lower-middle-income groups. In this connection, it should be kept in mind that there is constant movement into and out of the population of AFDC mothers.[8] The evidence strongly suggests that many mothers who resort temporarily to Public Assistance could avoid doing so if the capacity of child care centers were not so glar-

[6] Seth Low and Pearl G. Spindler, *Child Care Arrangements of Working Mothers in the United States,* U.S. Children's Bureau and U.S. Women's Bureau (Washington, D.C.: U.S. Government Printing Office, 1968), p. 71.

[7] Genevieve W. Carter, "The Employment Potential of AFDC Mothers," *Welfare in Review,* VI, July–August 1968, pp. 1–11.

[8] *Ibid.*

ingly deficient. Moreover, there are many mothers, as also suggested previously, in both one-parent and two-parent families, whose skills would make possible a substantial contribution to the Gross National Product—and, in shortage occupations, such as nursing, to the prevention of inflation—if their child care needs could be met. In a society which increasingly recognizes the value of investment in higher education, it is also important to keep in mind the wives who have been earning their Ph.T. ("putting hubby through") degrees, but whose employment is interrupted by the birth of a child, as well as the large numbers of young women who fail to complete college or to go on to higher degrees because of child care problems. Undoubtedly, an important reason for the persistently small proportion of women in professions such as law and medicine in the United States is the fact that many women with the potential ability to complete their training for such professions successfully are prevented from doing so by marriage and the problems of motherhood.[9]

As Mrs. Mary Keyserling, opening a conference on the day care needs of working mothers in 1967, put it:

> The lack of sufficient and adequate day care facilities for the children of working mothers, at a price they can afford, has become a major social crisis in our midst.[10]

Mrs. Keyserling also pointed out that the availability of day care for the children of working mothers is far greater in Sweden than in this country, and yet the Swedish Government planned to double the number of places by 1970. In Israel, moreover, there were reported to be sufficient day care centers for all children needing them.[11]

It has been argued that the question of support for child care centers is not an income maintenance issue. I fail to see the logic of this position. The Commission is recommending a universal income supplement program which is carefully designed to preserve incentives to work, and yet the evidence is very clear that the lack of provision for child care centers in the United States is one of the most important obstacles to the labor force participation of low-income mothers.

It is also argued, in the Commission report, that the potential earnings of most AFDC mothers are not much more than the cost of day care for one child. There are a number of weaknesses in this argument. In the first place, although it is generally true that the earning capacity of AFDC mothers is low, there are exceptions. Secondly, it is not just a question of AFDC mothers, but of mothers who *might* become dependent on welfare at some time in the absence of child care centers, as well as of large numbers of mothers who could contribute significantly to the Gross National Product and to their family welfare (e.g., the education of their husbands or themselves) if provision for child care were available. Thirdly, the Head Start program, designed for disadvantaged children, would be expected to be more costly than a well-conducted child care center program. Certainly the Head Start cost of $1,700 per child, cited in the Commission report, substantially exceeds the annual cost per child of the California child care center program, which, in the opinion of qualified observers, provides care that is well above the purely custodial level. The average annual cost of the California program per child in 1967–1968 was $1,099, of which parent fees contributed $220.[12] Thus the average annual *public* cost was $879. In this connection it should be kept in mind that teachers' salaries (an important component of the cost) are relatively high in California and that nationwide average costs of a comparable program would probably be somewhat lower. The average cost is also held down

[9] See Margaret S. Gordon, Introduction to a Symposium on "Women in the Labor Force," *Industrial Relations,* VII, May 1968, p. 188.

[10] *Report of A Consultation on Working Women and Day Care Needs,* Washington, D.C., June 1, 1967, U.S. Women's Bureau (Washington, D.C.: U.S. Government Printing Office, 1968), p. 2.

[11] *Ibid.,* pp. 4–5.

[12] Information supplied by California Department of Education.

by the participation of some school-age children who do not need all-day care.

Furthermore, in an attempt to apply cost-benefit analysis to an issue of public policy, it is important to consider whether the benefits are being adequately measured. The Commission report suggests that the annual potential earnings of AFDC mothers, who could get jobs if their children could participate in a child care center, represent an appropriate measure of the benefits. I would argue that the potential average earnings of the population of mothers within an appropriate low to lower-middle-income range who are prevented from working by the absence of child care facilities are above the average earnings of AFDC mothers and that a good many of these mothers could pay full-cost fees. Moreover, it is important to take into account the likelihood that children who are left without child care or with completely unsuitable care may grow up to be juvenile delinquents—this is an important consideration in view of the large numbers of children in the 6 to 13 age range who are left without care. One should also consider the disastrous effects of teenage marriages and pregnancies on the lifetime income of those involved,[13] as well as the impact of marriage and child-bearing in the 20 to 24 age group on the prospects for completion of higher education of many young women and some young men. Another important aspect of the potential benefits is the possibility of creating substantial numbers of teachers' aide positions for low-income mothers in child care centers, perhaps in many cases the mothers of children enrolled in the centers. When these and other similar factors are considered, it seems quite obvious that the overall social benefits of an adequate child care center program would probably substantially exceed the total earnings of the mothers whose children participated.

I recognize that many Commission members are concerned about the high cost of an expanded child care center program, but it is important to keep in mind the fact that an adequate program could be developed only gradually. Just as it takes time to develop a National manpower training program, because of shortages of appropriate personnel and facilities in the early stages, so it would take time to bring about a large-scale expansion of child care centers in the United States. A reasonable goal might be the addition of places for 100,000 children a year over a period of ten years or so. Estimating on the basis of the California operating costs, the operating costs associated with the addition of 100,000 places in the first year would probably amount to about $90,000,000. At the end of ten years, there would be one million additional places at a cost, allowing for some inflation, of slightly more than one billion dollars—not a large sum in view of the prospective growth of GNP.

Finally, I agree with the statement in the Commission report that "if day care is regarded as an important child development opportunity, then programs for young children can be seen as a universal extention of the concept of public education." This statement, it seems to me, merely strengthens the argument that the total social benefits of an adequate child care center program would exceed the earnings of the mothers involved.

Margaret S. Gordon on Public Assistance, concurred in by Sherwood O. Berg

I agree with the majority recommendation that Federal participation in existing categorical Public Assistance programs be terminated, once the proposed universal income supplement program becomes effective. However, I believe that a new program of Federal grants-in-aid should be adopted to encourage States to provide income supplements to *augment* the Federal universal income supplements in a manner consistent with the objectives of our proposed income supplement program.

I recommend such a program for the following reasons:

1. As the Commission report recognizes, there will be a need for augmentation of the Federal

[13] For a highly informative summary of the data bearing on this problem, see Alvin L. Schorr, *Poor Kids* (New York: Basic Books, 1966).

universal income supplements in States whose present levels of Public Assistance payments are higher than the proposed minimum income guarantee. If the Federal Government terminates grants-in-aid for cash payments other than short-term emergency aid, it will not have any power to influence the manner in which such augmentation is accomplished. It seems highly probable that, under such circumstances, many States would continue their present Public Assistance policies in connection with payments made to augment the universal income supplements. If this happened, there would be conflicts between State programs and the objectives of the Federal universal income supplement program. Such conflicts could take a number of forms, such as (1) failure to disregard any portion of the earnings of Public Assistance recipients, which could seriously interfere with the objective of providing incentives to work;[14] (2) continuation of present categorical aid programs, such as AFDC, with resulting continued discrimination against intact low-income families and continued incentives for family splitting; and (3) continuation of a wide variety of policies and practices which have the effect of subjecting needy individuals and families to demeaning experiences.

2. A Federal program of grants-in-aid to encourage State augmentation of the proposed universal income supplements could exert a positive influence in guiding the States toward augmentation programs that would be consistent with the objectives of the universal Federal program. Since it might be desirable for States to experiment with pilot programs before adopting general supplemental programs, I recommend that Federal grants-in-aid be provided to support (a) pilot or experimental income supplement programs in the States and (b) general income supplement programs in the States. Although I strongly agree with the Commission's recommendation that the level of payments under the Federal universal income supplement program be raised as rapidly as possible to a more adequate level, I am not confident that the need for supplemental State programs will disappear in the near future. Wage and per capita income differentials among the States have existed for a long time, and although the Federal universal income supplement program would probably play a role in reducing such differentials, as the Commission report suggests, they are likely to persist for some decades to come, along with an associated need for supplementation of the basic Federal program in States with relatively high wage and per capita income levels. Moreover, although it can be argued that these are the States that have the greatest capacity to pay for income supplement programs, it is also quite clear that some of these States are facing acute urban crisis problems.

3. As the Gross National Product increases, Federal Government revenue, derived in large part from the personal and corporate income taxes, expands rapidly. For a number of practical reasons, it is not feasible for State and local governments to rely as heavily on these "income-elastic" sources of revenue as does the Federal Government. Yet it is generally recognized that income taxes are the most equitable sources of Government revenue. These fiscal considerations also provide an argument for the Federal grant-in-aid program which I propose. There is little question that such considerations were influential in leading the National Governors' Conference, early in September 1969, to recommend complete Federalization of Public Assistance, with only one dissenting vote on the part of the assembled governors. Proposals for income sharing, though worthy of support on other grounds, do not meet the need for Federal Government influence on the future course of State income maintenance policies, which for all practical purposes can be met only by an appropriate Federal grant-in-aid program.

Although I believe, therefore, that the case for Federal grants-in-aid for State income supplementation programs is strong, I do not think that there has been enough study of the problems involved in framing appropriate State income sup-

[14] Cf. James Tobin, Joseph A. Pechman, and Peter M. Mieszkowski, "Is a Negative Income Tax Practical?" *Yale Law Journal*, LXXVII, November, 1967, p. 14.

plementation schemes to provide a basis for suggesting appropriate standards for such a grant-in-aid program. Nor do I consider it desirable, in the absence of such a study, to suggest what percentage of the cost of State income supplement programs should be met by the Federal Government. For example, the 50 percent tax rate on other income proposed for the Federal universal income supplement program might not be the most appropriate provision in the case of State supplementation programs. A State supplementation program which would increase the basic guarantee to $3,600 for a family of four and apply a 50 percent tax rate to other income would cover all families of four with incomes up to $7,200 and would thus be extremely costly. The possibility of a sliding scale tax rate which would rise with increasing levels of other income should be studied.

In view of the quite evident need for careful consideration of these problems, I strongly urge the appointment of an appropriate advisory body (e.g., a Presidential Task Force) to undertake such a study.

Julian Samora

Someone once said that the poor you will always have with you. This will be true in our society as long as we do not make a long-range concerted effort to eliminate poverty. We have the means to eliminate poverty as we have the means to go beyond the moon. The Commission's recommendations are a step toward the elimination of poverty but they fall far short of the goal.

The base income of $2,400 annually for a family of four under the proposed universal income supplement program is inadequate. A base income of $3,600 annually for a family of four, would just place such a family above the poverty level.

Many would argue that such a program would be expensive and they are right. The money is available but being spent on other things: billions of dollars for war and war-related activities, billions for space, billions for foreign aid, and billions for farm subsidies.

If this country would reorder its priorities, perhaps we could take care of the poor first.

As a Commission we were instructed by President Johnson to examine every plan ". . . however unconventional, which could promise a constructive advance in meeting the income needs of all the American people."

We looked at a number of plans, but most were old and conventional, including the one that was chosen by the majority.

A plan to which the Commission did not give due consideration is that proposed as The Second Income Plan by Louis O. Kelso and Patricia Hetter in their book, *Two-Factor Theory: The Economics of Reality.*

Anyone seriously interested in income maintenance programs must give the Second Income Plan thorough consideration.

J. Henry Smith on Some Practical Considerations of Income Supplementation

After examining the facts, as this Commission has done, one can have no doubt that there is widespread, dreadful poverty which as a Nation we must work to obliterate. Nor can there be doubt that our present provisions and mechanisms for the relief of poverty are inadequate and unsatisfactory. The facts are compelling. A new and costly undertaking—at the Federal level—is needed at once.

For this purpose a strong case has been made in this Report for introducing a plan referred to as the Universal Income Supplement. This plan belongs to a class of plans (often called Negative Income Tax) which have raised several serious and as yet unanswered questions. Unfortunately the arguments for and against Negative Tax plans are, at this stage, largely theoretical, necessarily somewhat subjective. There is practically no real experience to use as a basis of judgment. I believe the Universal Income Supplement idea has great promise and it may, in some form, prove to be the best solution; but it needs to be fully tested in a number of diverse circumstances and formulations before we can be reassured of its superiority and practicality.

In these circumstances I am led to suggest tactics differing somewhat from those recommended in this Report. The best approach, it seems to me, is to organize and fund the needed testing immediately, and at the same time, in order to help the poor at once, take major steps to reform and enlarge the present welfare system so as to overcome its deficiencies.

To test the universal income supplement, the pilot study initiated recently in New Jersey is a step in the right direction, but similar studies are needed elsewhere, especially in the low-wage areas. We need answers to such vital questions as: the impact of various levels of payments on wage scales, labor markets, and employment; the impact on the stability of families; administrative problems, such as the practicality of frequent income declarations by the poor and checking on the accuracy of reports on wealth and imputed incomes; the effect on work motivation; determination of how people will use cash grants and what residual obligation there will be on society; and the impact of different levels of the minimum income and other variables in the formula on cost and on individuals. The total cost of the plan is highly sensitive to even small changes in the formula.

For the purpose of reform of the present welfare system, one blueprint for action was spelled out in 1966 by the Advisory Council on Public Welfare to the Secretary of HEW in a document entitled *Having the Power, We Have the Duty.* The Council recommended minimum standards for Public Assistance payments; a nationwide comprehensive program of Public Assistance based upon need; a uniform, simple plan for Federal-State sharing of costs of public welfare programs; and comprehensive social services readily accessible, as a right, to all. Many others have proposed similar reforms. I believe our desired ends can be substantially obtained in this way and time can be purchased for testing and perfecting the Income Supplement mechanism.

It is, in any case, important to recognize that reform of our present system is very much in order, even if the Income Supplement proposal is adopted. The support level proposed (or likely to be reached in the near future) for the Income Supplement would actually provide incomes less than those now being provided by public funds for large classes in many of the more populous areas. We would still need to provide additional help for millions of our poor through our present kinds of relief mechanisms. Indeed, it seems likely that adoption of the Universal Income Supplement would not solve many of the difficulties—it would compound the complexity of the present situation because it would introduce a new and radically different program without doing away with the old. Therefore, it is important, even if the Income Supplement is adopted, to have the present welfare programs revised in order to overcome their serious deficiencies. If we do that well, the need for a negative income tax could be deferred long enough to test and perfect it.

Some might be inclined to call this approach ineffectual "tinkering" with the present system. I do not have "tinkering" in mind—I seek and we need genuine, sweeping reform and commitment of substantial new resources. If, however, Congress should conclude that some form of the negative income tax idea should now be incorporated into our system, adoption of the limited and work-conditioned form called Family Assistance Plan, as proposed by the President in his recent message to Congress, (HR 14173 and S 2986), together with other reforms, would at this time be a preferable step to the untested, sweeping measures proposed in this Report.

Asa T. Spaulding

I endorse the findings and Report of the Commission. I feel, however, that the recommended income of $2400 is too low. I would urge a minimum income of $3000 as a starting level.

David Sullivan, concurred in by A. Philip Randolph

I am in fundamental agreement with the basic tenor and thrust of the Report and I therefore associate myself with its main conclusions and

recommendations. The Commission has developed a report which I consider to be the most thorough investigation of poverty in America that has ever been published. However, I would like to express a separate viewpoint on a few important issues.

The Report contains a perceptive and deeply moving presentation of the facts of poverty and a searching analysis of the causes of poverty. Based on my own knowledge and my first-hand experience of the hearings in which I as well as other members of the Commission participated, I can thoroughy agree with the material presented in the Report about the extent of poverty, the description of the inhuman burdens the poor must bear, and the most important fact of all—that is, that our Nation has both the knowledge and the resources to wipe out poverty.

One criticism I would make of the Report, which cuts across specific recommendations, is that it is too arbitrary and negative about the potentialities of programs other than the income supplement for both preventing poverty, which is of critical importance, as well as for relieving a great deal of existing poverty. I have in mind such things as the minimum wage program, training and employment programs, the various social insurance programs, as well as other programs including health services, housing programs, day care, etc.

With respect to these programs, the Report assumes a rather peculiar position. After analysing each of these programs, it points out with respect to one after another that it is not a panacea, that it alone is not enough to wipe out poverty.

But that is no reason to minimize the contribution these programs can make to the elimination of poverty—each of them individually and all of them considered together. If we make proper use of all of these programs to the maximum extent possible, we will prevent much needless poverty and remove many millions of people from their present poverty. This is important not only for the people who would be directly helped but also because there would then be far fewer people who would need the income supplement. If fewer people had to depend on the income supplement, there would be a much better chance of getting that supplement soon to an adequate level. Thus, even the people receiving the income supplement would benefit indirectly but very significantly if we made the maximum use of all of these other programs.

Level of the Universal Income Supplement

The proposed income supplement of $2400 for a family of four is higher than welfare payments in some States and higher than the $1600 basic payment in the President's welfare reform proposal [15] but it is not nearly high enough. This amount, which is proposed as the *total* Federal contribution to the program, provides only $43 a month per person or approximately the same as the average payment today for families in the Aid to Families With Dependent Children (AFDC) program, which the Commission regards as totally inadequate. The $2400 is nearly one-third below the official poverty line of $3553 for 1968. With the rapid increase in the cost of living since then, the poverty level would be significantly higher today. Yet, as the Report makes clear, the official Government poverty line is an arbitrary figure which is not only undoubtedly too low but fails to take account of the fundamental problem of extreme income inequality.

The proposed $2400 payment is even further below the lowest 4-person family budget of the Bureau of Labor Statistics. According to BLS, in 1967 over $4,800 was needed "to meet the requirements for physical health and social well-being of family members, the nurture of children and participation in community activities." Of course, that $4800 figure for 1967 would be considerably higher today.

The Commission was not asked to make recommendations on the basis of purely pragmatic considerations or even on the basis of dollar costs.

[15] The President's proposal calls for supplementing the basic $1600 payment by food stamps valued at $750 for a total of $2350. The Commission's proposal calls for immediate elimination of food stamps. Thus the total amount would be almost the same under the two proposals.

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We were asked to give our best judgment on what this country ought to do to eliminate poverty.

The Report sets forth in the most graphic manner the incalculable harm continued poverty does, not only to its immediate victims but to our Nation as a whole. It emphasizes in the most emphatic terms the urgency of eradicating the continued want and deprivation of the most disadvantaged of our fellow citizens.

Moreover, the Report makes clear that to rid our Nation of the scourge of poverty is not impossible. The Report states: "It is possible to assure economic security for all Americans within the basic framework of existing political and economic institutions. It is time to construct a system which will provide that security."

Because I believe that to postpone that commitment will make the goal of eliminating poverty less and not more likely of achievement, I am firmly convinced that the universal income supplement the Commission has recommended should assure to its recipients an income no lower than the official Government poverty level. If the Commission did not wish to take this step immediately, it should have at least recommended a tight timetable for early achievement of that objective.

State Supplementation

I agree with and support the majority recommendation that Federal participation in existing categorical Public Assistance programs should be terminated when the universal income supplement program becomes effective, provided that, at that time, and until the universal income supplement program reaches an acceptable level, a new program of Federal grants-in-aid under which the States will maintain, or improve, benefit levels which exceed the basic level, is established. Study should be given to this matter to determine, from among the several alternative methods available, the one which would be most consistent with the objectives of our proposed income supplement program.

Minimum Wage

The Report virtually ignores the minimum wage as a weapon in the fight against poverty. Yet the minimum wage has through the years prevented much poverty and could in the future be an even more powerful weapon in the fight against poverty. It is estimated that if the protection of the minimum wage is extended to all workers and it is raised to $2 an hour, four million people will be lifted out of poverty, one-sixth of the poor.

We have somehow gotten used to the idea of the "working poor" in this country. These are people who work full-time, all year, at jobs which are needed and contribute to the economy and yet are paid at sub-poverty wages. This is wrong and I think the Commission had a duty to say that it is wrong. Therefore, as a fundamental aspect of an overall antipoverty program, the Commission should have recommended extension of the minimum wage to all those still denied its protection as well as a substantial increase in the minimum wage.

Social Security [16]

Because the Commission focused its attention primarily on public welfare and development of a viable alternative program to it, it was not able to devote much time to consideration of other programs. The Report poses a number of important issues with respect to Social Security, but the Commission could not study these questions in depth. Therefore, instead of making rather offhand recommendations for elimination of dependents' allowances, minimum benefits and (unspecified) similar features, it should have requested the Advisory Council on Social Security to consider these matters just as it requested the Council to consider changes in the structure of Social Security benefits.

[16] Margaret S. Gordon concurs with this section of Mr. Sullivan's statement.

Appendix A
A Review of Existing Programs

I
Evaluation of Existing Programs

The Federal Government has accepted responsibility for providing all Americans with a measure of economic security. This intent has been expressed in several major pieces of legislation, including the Social Security Act of 1935, the Employment Act of 1946, the Manpower Development and Training Act of 1962, and the Economic Opportunity Act of 1964. The fact that so many Americans still subsist on inadequate incomes is evidence of a failure to meet this responsibility. This Appendix will review the major existing programs, evaluating them both as individual programs and as elements in an income maintenance system.

Program Types

There are many government programs affecting the income levels of individuals. The programs that we have reviewed can be placed in three categories according to their approach to the problem of insufficient income.

Human Resource Development

The basic source of economic security for most Americans is the money they earn from their jobs. The economy is sufficiently productive to provide most people with adequate incomes. However, as has been noted in Chapter 2 of the Report, many find that labor force participation does not provide even the minimum income they need. Many others find full-time, regular employment is not possible.

The Federal Government has developed a set of programs to increase the earning power of many individuals. Most of the programs in this category are aimed at raising the educational and skill levels of potential and actual members of the labor force in an effort to make them more productive. Such programs as Adult Basic Education, Neighborhood Youth Corps, and the Job Corps are examples of programs which seek to enhance an individual's marketable skills in order to increase his income.

Social Insurance

An individual may suffer a significant loss of income for a variety of reasons. Social insurance programs have been developed over the years to assist individuals suffering such losses. While employed, workers earn credits which entitle them and their dependents or survivors to receive payments if their work income is cut off for specified reasons, such as unemployment, disability, retirement, or death.

These programs are based on a self-help ethic: when employed, workers contribute to their own insurance protection against a loss of earnings. This insurance income then is made available as a right, regardless of income level or need, to those who meet tests of coverage and loss of earnings.

Cash Income Transfers

Programs in this category provide direct subsidies to families and individuals on the basis of eligibility and need. These programs were created to assist those who are considered unemployable and those not covered by any form of social insurance, as well as those who have some special needs. Examples of this sort of program include Public Assistance and Veterans Pensions.

Income-in-Kind

These programs are a special form of income transfer, providing goods and services directly rather than offering cash to buy goods and services. They provide direct subsidies for such things as food, housing, and medical care. These programs include full government subsidies (Surplus Commodity Distribution and Medicaid) and partial subsidies (Public Housing, Food Stamps, Medicare).

Criteria for Evaluation

Because of the large number of income maintenance programs, many of which have multiple objectives, evaluation is difficult; no single simple criterion can be developed by which success or failure can be readily measured. However, a brief review of factors that must be taken into account in evaluating programs follows.

Human Resource Development Programs

Clearly, the basic test for these programs must be their success in improving the skills of participants enough for them to find and keep jobs that pay adequate wages. Training programs which participants are unable to complete or utilize fully are a waste of society's scarce resources. Moreover, if the benefits—measured in terms of higher net earnings for participants—do not exceed the costs of job training and placement, the program requires careful scrutiny. However, a benefit-cost ratio less than one does not mean necessarily that a program is without merit. The program may reflect a conscious decision by society that the subjective value of having an individual work is a sufficiently important benefit to outweigh the sizable costs of a program.

Transfer Programs

Social insurance programs and the other transfer programs involve fairly straightforward payments of either money or goods and services to individuals. A common set of criteria is useful in reviewing these programs. Relevant factors include:

Clearly defined rights: Rights and duties under grant programs should be clear to potential participants. Inexpensive and nonprejudicial access to appeals procedures and remedies should exist. The argument for imposing this requirement rests upon a simple view of equity: Persons dealing with their Government should be able to understand their rights and obligations, and to achieve their rights and fulfill their obligations easily.

For example, a program in which an administrator follows a clearly specified set of rules and procedures in determining eligibility is superior to a program in which he must exercise subjective judgment on a case-by-case basis. Thus, Veterans Pension programs, which have a clearly specified schedule of benefits and eligibility requirements, are superior to Public Assistance programs under current practice, where the line administrator can deny aid and change benefit amounts arbitrarily.

Adequacy: Transfers of income should be made at levels adequate to support the basic social objectives of the programs. We transfer income for a number of reasons: to assist those whose income is below some standard, to encourage certain activities, to equalize opportunity. Whatever the rationale or the nature of the program, the transfers of income should be adequate to achieve the goals sought.

Equity: The program should be perceived as "fair" by both recipients and nonrecipients. The one equity principle that has broad social acceptance is that Government programs should treat persons in similar circumstances similarly.

In the tax system, the principle is reflected in the use of equal income and family status as indices of equal ability to pay taxes, although exceptions are made. In income maintenance programs, however, this equity principle is violated frequently. Persons in exactly the same need circumstances may be eligible for quite different benefits. The benefit payments and programs for which a widow with children may be eligible will depend on where she lives (Public Assistance), whether or not her husband has served in the Armed Forces (Veterans Pensions), and the industry in which her husband was employed (Social Security Survivor's Insurance).

Application of the equity principle would imply that persons with the same history of covered employment in a social insurance program should be eligible for the same benefits, while for programs based on need, persons with the same needs should receive the same benefits. Equity must also be considered in assessing regional differences in standards.

Adverse incentive effects: Grant programs should be structured to avoid changing individual behavior patterns unless it is clear that the changes induced by the income transfer are desirable.

It is not always possible to make income transfers without affecting individual behavior patterns in many ways. Effects may be found in willingness to work, production and consumption patterns, the location of economic activity, the flow of savings, and the rate of economic growth. An adequate system of retirement income protection, for example, weakens the bonds of extended family organization, and increases retirement rates.

Clearly, programs should be structured to avoid inducing family instability, undesirable migration patterns, and reduction in work effort. A program which induces unanticipated and undesirable effects creates dissatisfaction and generates demands for a patchwork of complementary programs to compensate for the perverse incentives.

Low administrative cost: Transfer programs should be designed to minimize the costs of administration. However, evaluation of these costs must take into account the objectives of the programs and the purposes for which administrative funds are used. As the objectives of programs grow more complicated, administrative costs become higher because of the complexity of procedures which must be adopted. If part of the administrative process is aimed at restricting eligibility to a narrow class of recipients, then administrative costs will be high—reflecting the cost of screening out those not eligible.

Summary Evaluation of Programs

Considering all existing income maintenance programs in the light of the factors discussed above highlights a variety of problems. Despite the fact that the programs have resulted in considerably higher incomes for recipients and beneficiaries, many persons remain unable to work or to command decent earnings, and many of these poor are ineligible for any aid. Moreover, the present system contains gross inequities and creates numerous adverse incentives.

The remaining sections of this Appendix review the major existing programs in some detail, and assess the possibilities of those programs for solving the poverty problem.[1]

[1] This review draws heavily on detailed staff papers and analyses which will be published separately.

II
Employment, Manpower, and Training Programs

In our society, work is the basic source of both income and social status for all but the very wealthy. This has long been the case and it seems likely to remain true in the near future: The society in which human labor is not needed does not appear imminent.[1] Yet, many people are unable to find regular work, and many who do work are unable to earn enough to lift themselves from poverty because of low wages, irregular employment, large family size, or other factors.

If this society expects employable people to work, then job opportunities should be made available to all who can work, and the opportunity to acquire the skills necessary to perform jobs should be provided.

Meeting these objectives requires use of a variety of techniques and Federal Government policies. We rely on general economic policy to insure that the level of aggregate demand is adequate to keep unemployment low. Manpower and training programs exist for employable persons whose skills and abilities do not enable them to perform available jobs, and various services are available to match individuals with jobs.

Economic Policy and Employment

The Employment Act of 1946 states that "it is the continuing policy and responsibility of the federal government . . . to promote maximum employment, production and purchasing power." The attempt to meet this responsibility has come to mean an increasingly explicit and sophisticated use of monetary and fiscal policy to influence the level of aggregate demand for goods and services. Changes in aggregate demand affect the unemployment rate and the availability of jobs. Poverty can be reduced to the extent that employment and wages of the poor are increased. Federal regulation of minimum wages also affects the earning ability of the poor.

Aggregate Demand

During the recent period of rapid economic growth and declining unemployment, there was

[1] *Technology and the American Economy,* Report of the National Commission on Technology, Automation and Economic Progress (Washington, D.C.: U.S. Government Printing Office, 1966).

a fall in the number of poor people from 36 million in 1964 to 25 million in 1968.[2]

This is consistent with the pattern of the past two decades, during which virtually all reductions in poverty occurred in periods of prosperity. The number of poor persons has declined considerably in postwar periods of prosperity and has increased in recessions. Rapid growth in employment has benefited the poor disproportionately. However, the poor also bear a disproportionate share of declines in employment levels and thus suffer directly from efforts to contain inflationary pressure.[3]

While the level of aggregate demand clearly has an impact on the incidence of poverty, the extent to which monetary and fiscal policy can be used to reduce poverty by maintaining rapid growth is limited. The use of fiscal and monetary policy to affect the level of aggregate demand necessarily involves a trade-off between unemployment and inflation. Efforts to reduce the unemployment rate to very low levels may generate an unacceptable level of inflation. Efforts to reduce inflation increase unemployment.

Although economic growth removes many from poverty, it does not affect all groups of the poor equally. During the last half of the 1960's, unemployment levels of non-whites remained at almost twice the overall rate. For example, while the seasonally adjusted overall unemployment rate in May 1969 was 3.5 percent, the nonwhite unemployment rate was 6.5 percent. Unemployment among youth was about three times the National average. A high incidence of unemployment remained in central cities and in depressed rural regions, and several million people remained in poverty even though their families included full-time, year-round employed workers. Many others who either could not or who many feel should not work, such as the disabled, the aged, and female heads of families, also remained in poverty.

Fiscal and monetary policy tools enable the Federal Government to affect significantly the level of aggregate demand, but it is important that these tools be supplemented with policies which cushion the blow of unemployment, reduce differences in the incidence of unemployment among various groups, increase the earning potential of those who hold low-paying jobs, and reduce the inflationary potential of the economy at low unemployment rates.

The Minimum Wage and Poverty

Another Federal policy by which incomes of the employed are affected is the minimum wage. The Fair Labor Standards Act requires that in general a minimum wage of $1.60 per hour be paid for all employment in covered jobs. The minimum wage is now $1.30 per hour for all workers *newly covered* by the 1966 Amendments to the Act, but this minimum will be increased to $1.60 per hour by February 1, 1971. Farm workers are excluded from this increase. This legislation clearly affects the incomes of the working poor.

The inadequate family incomes of the working poor result from low wages, insufficient hours of work during the year, large family size, or a combination of these factors. Thus, evaluating the role that can be played by the minimum wage in alleviating poverty requires consideration of these factors. To the extent that the minimum wage raises the hourly wage received by workers it increases incomes, but it cannot increase the hours of work available or reduce family size.

Obviously, if a person works a given number of hours per year, an hourly wage sufficiently high to guarantee a nonpoverty income to that person can be computed. If the person is a family head, his hourly wage would have to be increased for each family member (holding hours of work constant). Thus, solving the problem of the "working poor" via the minimum wage becomes a matter of guaranteeing the appropriate number

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[2] U.S. Bureau of the Census, *Current Population Reports*, Series P-23, No. 28, "Revision in Poverty Statistics, 1959 to 1968," August 12, 1969, Table D.

[3] R. G. Hollister and T. L. Palmer, "The Impact of Inflation on the Poor," University of Wisconsin, Institute for Research on Poverty, Discussion Paper 40-69.

of hours of work to family workers at a sufficiently high hourly wage. The hourly wages that would have to be earned by the heads of nonfarm families of various sizes—working 40 hours per week 50 weeks a year—in order to lift the family from poverty are:

Family size	Required hourly wage
3	$1.39
4	1.78
5	2.09
6	2.35
7	2.89

Two points are obvious. First, a very substantial increase in the level of the minimum wage would be required if families of six or more are to escape poverty. Over one-third of the working poor families have six or more members. Over sixty percent of the persons in poor families headed by a nonaged male who worked all year are in families of six or more.[4] The minimum wage is not a family size-oriented policy tool. Reliance on it for eliminating poverty would require family size differentials.

Moreover, simply passing a law to regulate wages will not provide the necessary demand for low-skill labor sufficient to guarantee 40 hours of work per week all year long to all workers. Over one-third of poor nonaged household heads worked either less than 40 weeks a year or less than 35 hours per week in 1966.[5]

Given these facts, we are not left with a very sanguine view of the role of this instrument in eliminating poverty among those who work.

Manpower and Training Programs

Manpower and training programs have great appeal as antipoverty weapons since they can be directed specifically towards the poor population. To the extent that they result in a better match between the demand for skills and the supply of workers with those skills in the labor force, they reduce inflationary pressures which accompany economic growth. By enabling workers to upgrade skills and move to better jobs, openings may be created for workers with fewer skills. Thus, such programs not only train the poor, but they also improve manpower utilization throughout the economy. During periods of rapid economic growth employers upgrade their labor force, lower hiring standards, and/or offer higher wages. In addition, employers increasingly turn to training programs as potential sources of labor, thereby increasing the effectiveness of programs among the population they are designed to help. However, training programs cannot succeed unless an adequate supply of jobs is maintained to absorb the newly trained workers. Thus, a key to the success of manpower programs is rising employment.

Recent History of Programs

Most manpower and training programs have a relatively short history in the United States. While programs have not been large in scope, they have shown both success and great promise for the future. The potential of these programs has not been fully exploited. It is not easy to generalize about them, since there are a great many separate programs, and they vary considerably by region. In fiscal year 1968 about 1.3 million persons [6] were enrolled in one or another of the programs, and expenditures exceeded $1.5 billion.[7]

The Area Redevelopment Act, which contained a small training component, was the first Federal program aimed at retraining workers. Each year since has seen the launching of a new Federally-sponsored training effort or the revamping of an old one. The first large-scale program,

[4] U.S. Department of Health, Education, and Welfare, Office of the Assistant Secretary (Planning and Evaluation), *Poverty Status Tabulations, 1966.*

[5] Special Tabulations from the Current Population Survey for the Office of Economic Opportunity.

[6] U.S. Department of Labor, Manpower Administration, *Manpower Report of the President,* January 1969, p. 140.

[7] National Manpower Policy Task Force, *The Nation's Manpower Programs* (Washington, D.C.: U.S. Government Printing Office, January 1969), pp. 30–31.

the Manpower Development and Training Act (MDTA) of 1962, was an attempt to help workers displaced by industrial relocation or technological change meet requirements for unfilled new jobs by retraining them for specific jobs available in local labor markets. Since then, the continuing rise in the level of unemployment among youth and the relatively high unemployment rate among minority group members have affected program development sharply. The shift in attention to "disadvantaged" groups is reflected in the 1963 and 1965 amendments to the Manpower Development and Training Act and in the Economic Opportunity Act of 1964. Included in the programs enacted by the latter act were the Neighborhood Youth Corps, the Job Corps, the adult work experience and basic education programs. The establishment of the Community Action Program also led to more training opportunities, since local community action agencies funded numerous training programs.

Legislation has not been limited to the creation of new training programs. The Vocational Education Act of 1963 attempted to modernize the antiquated vocational education system and to rectify deficiencies revealed by early experience under MDTA. In 1965 a major increase in Federal support to the Vocational Rehabilitation Administration was authorized and the administrative definition of handicapped was broadened to include "behavioral disorders . . . which may result from vocational, social, environmental or other factors." The budget of the United States Employment Service, which participated in most of the new training programs, also was expanded. An attempt also has been made to reorient the U.S. Employment Service (designated the U.S. Training and Employment Service in the spring of 1969) from its historic position as a passive labor exchange to a more active placement and job development role. Attempts to serve the hardcore unemployed have included: outreach efforts, such as the use of community workers for recruiting; the establishment of branch centers in ghetto neighborhoods; the use of mobile units for special counseling and testing; referral to occupational training; and attempts to develop jobs with employers.

Directions of Development

Since 1961 two trends in the manpower area have become discernible. The first is seen in the appropriation of additional funds for direct employment of the poor. These programs are small and experimental. Amendments to the Economic Opportunity Act provide for the direct employment of the adult poor in conservation and beautification efforts (Operation Mainstream), and encourage somewhat similar work involving youth and adults in urban poverty areas (Special Impact program).

The second trend reflects an attempt to make training the disadvantaged a by-product of the operation of existing institutions. A 1966 amendment provided for the creation of subprofessional jobs in the public sector (the New Careers Program). Another example is the Job Opportunities in the Business Sector (JOBS) program. This program, co-sponsored by the National Alliance of Businessmen and the Department of Labor, has the goal of inducing private employers to hire over 500,000 of the hard-core unemployed by mid-1971. Participating firms provide special services to these new employees and are eligible for Federal financial assistance.

Major Programs

The large number of programs makes detailed description of all impossible. They fall into two general categories: structured training and work experience programs. Structured training programs provide for a formal set of training requirements leading to qualification for a specific job. Work experience programs are defined more loosely, and consistent of programs that primarily improve attitudes and general skills by putting enrollees in a work environment under supervised conditions.

Three specific programs have played an especially prominent role in manpower policy in terms

of both longevity and size. Consequently, they deserve careful scrutiny. MDTA and the Job Corps are the largest of the structured training programs; the Neighborhood Youth Corps is the largest work experience program. An understanding of these basic programs helps illuminate other programs. Operation Mainstream, for example, is concentrated on an older, more rural segment of the population, but otherwise is similar to the NYC out-of-school program. The JOBS program is in many ways an extension of the on-the-job training component of MDTA except that the former involves a higher proportion of the hardcore unemployed. The Work Incentive Program, which was designed to improve the employability of welfare recipients, employs the work experience concept associated with NYC for a large percentage of the population it serves. For others it provides MDTA-like training.

1. Manpower Development and Training

The Manpower Development and Training Act (MDTA) provides for two distinct components: institutional and on-the-job training (OJT).

Institutional training programs provide formal education and training in classroom settings. They generally are limited to training for skills which can be acquired in less than a year, and for which there is a continuous local demand. Examples are: auto mechanic, welder, clerk-typist, licensed practical nurse, and nurse's aide. A 1963 provision of the Act, which allows up to 20 weeks of a basic education and employment orientation training (e.g., grooming and instructions in handling a job interview) has become increasingly important as the proportion of disadvantaged trainees has increased. Training allowances are paid to most enrollees to enable them to meet living expenses during extended periods of training.[8]

Under on-the-job training programs trainees are hired by employers and trained on-site for specific jobs. Most on-the-job training contracts are negotiated with employers at the local level. Trainees must be approved by the Employment Service for the employer to receive a subsidy, and the Employment Service can make referrals. The employer has the final decision on whether to hire trainees referred, and in most cases the employer can refer direct applicants to the Employment Service for approval.

OJT has been favored over institutional training by both the Manpower Administration and by the Congress, although there is little evidence of its superiority. It now accounts for about 50 percent of MDTA enrollment opportunities. While OJT has lower unit costs to the Federal Government than institutional training—an estimated $485 per person completing training as opposed to $2,000 for institutional training—this comparison is misleading.[9] The most important reason for this difference is the training allowance which accounts for 60 percent of total institutional costs. OJT enrollees, of course, produce a product and receive a salary. In addition, nonsubsidized portions of OJT employers' costs never appear as Federal budget expenses. Also, institutional courses tend to be longer. Most importantly, OJT enrolls a significantly lower proportion of the disadvantaged. The major reason for this difference is obvious: Employers generally tend to hire the best available workers. As more of the disadvantaged are enrolled in OJT, costs will increase correspondingly. In the JOBS program, for example, where OJT has concentrated on the hard-core unemployed, costs have been running about $3,000 per trainee.[10]

A distinct advantage that OJT enjoys over institutional training is its immediate job relevancy, coupled with the very high likelihood of a job upon completing training. A job environment is thought to motivate many trainees who react poorly in classroom situations. But the employer is less likely than the vocational training

[8] Garth L. Mangum, *MDTA: Foundation of Federal Manpower Policy* (Baltimore: John Hopkins Press, 1968), p. 121.

[9] Garth L. Mangum, *op. cit.*, Table 4–11.

[10] Emil Michael Aun, "JOBS is Putting People to Work," *Manpower*, Vol. 1, No. 4, May 1969, p. 17.

center to teach skills which might be transferable to other jobs. Thus, the greater transferability of institutional training in the long run may offset the more immediate advantages of narrowly oriented OJT training. In the administration of the MDTA–OJT program there appears to be increasing movement in the direction of using the MDTA subsidy as an inducement to employers to reduce their hiring standards, with the JOBS program the clearest example.

Evaluation: Cost-Benefit Analyses

Cost-benefit studies of training programs are difficult to interpret. Improvements in earnings and employment of participants often can be attributed to factors other than their training. Changes in general economic conditions, higher motivation of those who seek training, and extra placement efforts all have been cited as factors that can account for improvements after training. But differences in employment and training are consistently so great that it appears likely that some are attributable to MDTA training.

The number of careful studies of MDTA institutional training which relate program benefits to their costs is modest and their scope is small, localized, and they are beset with data limitations and methodological difficulties. Nevertheless, they consistently show an adequate return on the Government's investment.[11] Cost-benefit analysis of OJT is even more difficult. For example, the specification of an appropriate control group is not obvious.[12] The one cost-benefit study of OJT graduates does indicate that benefits substantially exceed costs.[13]

2. *Job Corps*

The Job Corps provides remedial education, training in job skills, and guidance and counseling to disadvantaged young men and women aged 14 to 21 who require a change in environment in order to prepare themselves for responsibilities of citizenship and to increase their employability. It is a residential program, and recruiting has been from among the most poorly educated youth. Thus, costs are high relative to other programs. In fiscal 1968 the estimated cost per man-year of training was $6,727.[14]

In fiscal year 1968, 109 centers were operated at which 100,500 young men and women received a total of 38,110 man-years of training. Some are conservation centers, while others are in urban areas.

The civilian conservation centers are operated either under interagency agreements with the Departments of Agriculture and Interior or are contracted to State agencies. The civilian conservation centers emphasize basic education and work experience for those trainees with severe educational deficiencies. The program also includes prevocational training, vocational training, counseling, and guidance. About 40 percent of the enrollees' time is devoted to conservation work. They thus provide both structured training and work experience.

Most of the urban centers are operated under contract to private corporations, while the rest are directed by universities or nonprofit organizations. Besides the obvious absence of conservation work, the urban centers differ from the

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[11] Studies of MDTA include: U.S. Department of Labor, *The Effectiveness of the Training Program Under MDTA*, 1965; David A. Page, *Retraining under the Manpower Development Act: A Cost-Benefit Analysis*, Brookings Institution Studies of Government Finance, Reprint 86, 1964; Gerald G. Somers, ed., *Retraining the Unemployed* (Madison: University of Wisconsin Press, 1968), presents summaries of a number of cost-benefit studies of retraining programs; Michael E. Borus, "The Economic Effectiveness of Retraining the Unemployed," *Yale Economic Essays*, Vol. 4, No. 2, Fall, 1964, pp. 371–429; Michael E. Borus, "Time Trends in Benefits from Retraining in Connecticut," and Gerald G. Somers and Graehme H. McKechnie, "Vocational Retraining Programs for the Unemployed," in *Twentieth Annual Winter Proceedings of the Industrial Relations Research Associations, Washington, D.C., December, 1967* (Madison: University of Wisconsin Press, 1968).

[12] For a general discussion, see Robert A. Levine, "Evaluating the War on Poverty," James L. Sundquist, ed., *On Fighting Poverty* (New York: Basic Books, 1969).

[13] Planning Research Corporation, *Cost Effectiveness Analysis of On-the-Job and Institutional Training Courses, A Report to the U.S. Department of Labor, Office of Manpower Policy, Evaluation and Research*, Washington, D.C., 1967.

[14] U.S. Senate, 90th Congress, 2nd Session, *Hearings Before the Senate Appropriations Committee on H.R. 18307*.

conservation centers by the greater emphasis placed on job-oriented vocational training and a somewhat higher level of reading and mathematical training.

Evaluation

There is little doubt that the majority of Job Corps enrollees are better off for the experience. Follow-up surveys indicate that this is the conclusion of former Corpsmen themselves.[15] Employers who have been surveyed are reported to think highly of Job Corps graduates.[16] By June 1968, 195,000 young people had been in the program for one day or longer. About 70 percent of these are employed, in the Armed Forces, or back in school. Data developed by the Job Corps show that for every nine months of enrollment, reading ability of Corpsmen was raised the equivalent of about 1.5 grades of schooling, and arithmetic comprehension about 1.8 grades.[17]

Evaluated either by hours worked or hourly wages, former Corpsmen have been better off after leaving the Job Corps than they were before entering. There is also a strong positive relationship between duration of stay in the Job Corps and job success. It could be argued that Corpsmen would be expected to do better after the Job Corps than before simply as a result of aging, and that those staying longer are motivated more highly and therefore do better than those leaving earlier. Nevertheless, the differences are so great that it is difficult not to attribute some of it to the Job Corps. One careful cost-benefit study suggests that there is a positive return on the public's investment in Job Corps training.[18]

[15] Lou Harris and Associates, "A Study of August 1966 Terminations from the Job Corps," March 1967 (mimeographed).

[16] Patricia A. Goldman, *Youth and the War on Poverty* (Washington, D.C.: The Chamber of Commerce of the United States, 1966), pp. 46–48.

[17] Office of Economic Opportunity, Job Corps, "Status Report No. 3: The Job Corps Evaluation," May 15, 1967 (mimeographed).

[18] Glen Cain, "Benefit-Cost Estimate of Job Corps," Office of Economic Opportunity, May 22, 1967 (mimeographed).

3. *Neighborhood Youth Corps*

The Neighborhood Youth Corps (NYC) has served a large number of youths—nearly 1.6 million between 1964 and mid-1968 [19]—at a relatively low cost. The program has three separate but related components: out-of-school, in-school, and summer programs.

In-School and Summer Programs

These programs provide part-time work opportunities for low-income ninth to twelfth-graders during the school year and the summer in an effort to encourage them to complete high school. Employers are usually the local school systems or other public agencies. The standard in-school enrollee job provides for ten hours of work a week, at $1.25 per hour, during the school year. The Summer Program provides for a ten-week enrollment period at an average 26-hour work week, with a wage rate of $1.25 to $1.50 an hour.

Sponsors contribute 10 percent of the total cost, generally through in-kind services such as administrative and supervisory personnel. The bulk of the in-school work assignments consists of diverse chores around the school, including clerical work, aiding teachers, working as library assistants, and performing various custodial duties.

Out-of-School Programs

The Out-of-School program primarily enrolls high school dropouts. The program is expected to provide paid employment, work experience, and other training which will permit them to participate in the competitive job market or encourage them to return to school. Supportive services (e.g., counseling or remedial education) may be provided.

The average work week under the Out-of-School program includes 26 hours of paid work at an average wage of $1.40 per hour, two hours of remedial education, and two hours of counseling. Out-of-school projects are sufficiently varied to

[19] U.S. Department of Labor, Manpower Administration, *Manpower Report of the President,* January 1969, p. 140.

make meaningful generalizations difficult. Most frequently, however, girls are assigned to clerical and health work, and boys to maintenance, conservation, and custodial jobs. Work is performed in hospitals, municipal agencies, community action agencies, public parks, forests, and elsewhere.

Evaluation

The contribution that NYC makes to the long-run welfare of its participants is unclear. There has been little evaluative research on this program. Perhaps the critical question in this respect is whether NYC is of any use except as a partially disguised income transfer mechanism. It can be argued that NYC's principal function is to serve as an "aging vat," since it provides some income and employment to youths until they become more mature and hence more employable in the competitive labor market.

Sponsors are required to provide "meaningful" work for enrollees and to contribute 10 percent of costs (all or part of which may be in-kind), but frequently, NYC assignments appear to be "make-work." However, make-work tasks, even if nonproductive, may lead to skill acquisition, teach work habits, and can instill self-confidence all of which are transferable to the competitive labor market. To the extent that this occurs, there is a net social gain.

In evaluating NYC it is useful to look briefly at each of its three components.

In-School: The almost universally accepted test of effectiveness of this program is its ability to retard dropping out of high school, and there is considerable evidence that it does have this effect. It is not known whether the causal factor in reducing dropout rates is simply the income provided by NYC, or whether some other component of the program is partially responsible.

Summer Program: Although it is justified on other somewhat elusive grounds, the summer component of NYC appears to be primarily a form of "antiriot insurance." For example, a former Manpower Administrator of the Department of Labor has noted that "In addition to providing needed wages, the Summer Program [promotes] good citizenship and positive involvements in community life. The numerical impact . . . in urban ghettos has also lessened the potential for disturbances in these areas . . . In a sampling of 75 percent of all summer projects only three enrollees were arrested for civil disorder." [20]

Out-of-School Program: Of the three NYC components, the case for the Out-of-School program is the most difficult to make. While some data exist on enrollees after leaving the program, no such data exist for a control group of non-NYC participants with whom a comparison could be made. There is a direct correlation between the duration of time spent in NYC and the proportion of former enrollees who were working full-time. There is also an inverse relationship between the duration of stay and the number who had returned to school. There appears to be little relationship between the type of NYC assignment and later employment.[21]

Less than 10 percent of Federal and sponsor funds are used for supportive services, such as remedial education, counseling, and vocational and prevocational training. Consequently, most of the benefits received by an enrollee from NYC must be inherent in his job assignment. The fact that the median length of stay in NYC is only 14 weeks, and only one out of five enrollees remains after 25 weeks, implies that most enrollees view NYC as little more than a temporary source of income. This is suggested also by the response of former enrollees to questionnaires.[22]

[20] Testimony by Stanley Ruttenberg, Senate Appropriations Committee, April 6, 1968.

[21] Dunlap and Associates, *Survey of Terminees from Out-of-School Neighborhood Youth Corps Projects,* Darien, Connecticut, May 1967.

[22] Sar Levitan, *Antipoverty Work and Training Efforts: Goals and Reality* (University of Michigan: Institute of Labor and Industrial Relations, 1967), pp. 57–65. See also Edwin Harwood, "Youth Unemployment—A Tale of Two Ghettos," *The Public Interest,* Fall 1969, pp. 78–87.

The Role of the Employment Service

The Federal-State employment service system has been involved in the implementation of nearly every manpower program sponsored by the Federal Government. It has been affected significantly by these programs, and its ability to implement them has in many cases determined their success or failure. While the Employment Service has been regarded as a single system, there are really 54 individual systems with over 2,000 local offices, each varying widely in orientation and effectiveness.

The traditional role of the service—referring qualified workers to employers with job openings—has given it a reputation for doing little for the poor and unskilled. This reputation persists, and seems deserved despite attempts to reorient the service toward meeting the needs of poor persons. During its field visits the Commission found that the poor and their representatives often view a trip to the Employment Service office as a waste of time.

Since 1962, when Federal manpower programs began, the U.S. Training and Employment Service (called the U.S. Employment Service prior to reorganization of the Manpower Administration in early 1969) has undergone considerable change in its responsibilities. Because of the Manpower Development and Training Act and other legislation, it no longer is considered primarily an employer-oriented labor exchange; rather, it is supposed to serve those who are poorly prepared for work by helping them meet hiring standards.

The Economic Opportunity Act of 1964 created additional functions for the employment service system such as referral to Job Corps and Neighborhood Youth Corps programs. The Act also created a new local institution, the Community Action Agency (CAA), to serve as an organizer of services and spokesman for the poor. Formation of the new local agency—whose funds came directly from Washington, bypassing the States—has had a substantial impact, particularly in urban areas, on the Employment Service and on other established service agencies.

In some cases the CAA's have established competing institutions, particularly for employment-related functions such as "outreach." These activities seek to locate the out-of-work poor, to develop jobs, and to sell employers on the idea of "hiring now" rather than waiting until the hard-core unemployed are prepared to meet the usual employer's specifications. Where these ad hoc job placement services have been successful, the local Employment Service received both the shock of successful competition and a demonstration of new techniques.

In other cases, the CAA's have sought to have personnel from the established agencies stationed in the neighborhood centers. By summer of 1967 approximately 800 Employment Service personnel had been placed in neighborhood centers in 174 cities and 35 States. But these 800 people assigned to improving the employability of various disadvantaged groups are a small portion of the 10,000 Employment Service personnel.[23]

Despite the availability of many new services for use by the Employment Service in helping the poor and other workers to find employment, the extent and quality of services provided is unknown. Output is measured almost entirely in terms of the number of transactions; little information is available on the characteristics of those served, the kinds of jobs found, or the quality of the service provided.

Faced with burgeoning manpower responsibility in recent years, the U.S. Department of Labor has assigned many programs and activities to the Employment Service and has designated the local office as a manpower service center for implementing National manpower programs. However, lack of Federal control, the uncertainties of the relationships among administrative agencies, and the difficulty in obtaining State cooperation have often hindered implementation.

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[23] Arnold L. Nemore and Garth L. Mangum, *Reorienting the Federal-State Employment Service* (University of Michigan: Institute of Labor and Industrial Relations, 1968).

Conclusions

A general verdict on the performance of the Nation's manpower and training efforts cannot be rendered. There is great diversity among the many programs. Many persons who benefited greatly from local projects appeared before the Commission in field investigations. Many disillusioned persons whose experiences were negative also appeared. Statistical studies generally indicate that benefits frequently far exceed program costs—both to individual trainees and to society.

We know that such programs can work, and frequently do work, very well. The great variety of programs, and the paucity of good evaluative research on program operations, lead to an inescapable conclusion: We do not know enough to say why some work and some fail, nor are sufficient data being collected systematically to do this in the future. Data that are used for analysis of these programs come from individual studies of particular projects. While they typically show that longer or more thorough training programs lead to effective results, they are not generally comparable. We do not know with certainty what organizational structure is best for delivering services or what type of services is best for particular individuals. Nor do we know how to insure that individuals will be placed in programs most appropriate for their needs or how best to coordinate efforts in the field.

Regardless of the difficulties with overall evaluation of programs, it is clear that manpower and training programs have a large role to play both in aiding the poor to increase their earnings capabilities and in improving the functioning of the economy. Also, the very newness of many of these programs makes evaluation difficult. Much of the past history of these programs must be viewed as experimentation.

However, these programs continually have fallen short of serving the total need for such services among the poor. Estimates indicate that there are "about 11 million chronically poor people for whom employment could be an escape route from poverty."[24] These are the poor persons who could be served by training programs and related manpower programs.

While a start has been made in serving the 11 million persons in need, much remains to be done. Four and a half million persons have enrolled in Federally-assisted manpower programs between fiscal 1962 and fiscal 1968. Over two-thirds of these enrollments were in the work experience programs.[25] The achievements of the three million enrollees in these programs vary by program and by locality, but in general work experience programs tend to place more emphasis on paying for services performed by participants than they do on preparing participants for productive work outside of the program. Generally they do not offer a direct escape route from poverty. Some participants acquire good work habits, gain self-confidence, receive remedial education, and possibly even learn transferable skills, but there is little evidence that a substantial number of work experience enrollees have been prepared for the competitive world by participation in the programs.

Of the original 4.5 million enrollments less than one-third—1.4 million—were in structured training programs. Two programs—MDTA and the Job Corps—account for slightly less than 90 percent of this group.[26] Many of the structured programs, especially MDTA, have not been filled by the poor. There has been increased emphasis in these programs on training the poor, but it is estimated that between 1962 and 1968 the poor accounted for considerably less than two-thirds of the total enrollments in structured training programs.[27] Furthermore, not all the enrollees complete the program, nor are all of them placed in

[24] *Manpower Report of the President,* January 1969, p. 141.

[25] *Ibid.,* p. 140.

[26] *Ibid.,* p. 140.

[27] Commission staff estimate. Data indicating that this estimate is high can be found in *Education and Training, Report of the Secretary of Health, Education, and Welfare to the Congress on the Manpower Development and Training Act* (Washington, D.C., U.S. Government Printing Office, 1969), p. 8.

jobs. Of the six-year total of 1.4 million enrollees, fewer than 700,000—about 50 percent—are estimated to have completed their programs and been placed in jobs. The percentage for the poor is unavailable, but undoubtedly it is lower. Thus, at most 31 percent of the enrollments in structured training programs, or less than half a million, represent poor persons who have completed the program, and found employment upon leaving the program.

In 1968, it is estimated that about 36 percent of the 357,000 enrollees in structured training programs—fewer than 130,000—were poor persons who enrolled, completed training, and were placed in jobs. These are significant accomplishments, but clearly only a small part of the estimated 11 million persons in the universe of need is being serviced each year by structured training programs designed to lead them to gainful employment.

For reasons outlined above, training and manpower programs should not focus exclusively, or even primarily, on the needs of the poor. But conversely, one cannot argue that training programs constitute a panacea for the needs of the employable poor, or that they are likely to do so in the foreseeable future. At present levels their impact is hardly felt. Even if greatly increased funding were available, it would take years to expand the level of operations to a point where these programs could make a significant dent in the universe of need.

The relationship between general economic policy and manpower programs runs in both directions: each reduces the inadequacies of the other. It is also clear that if these policies are used in the most optimal combinations, there will still be many citizens whose incomes will not be high enough to enable them to support themselves and their families at the poverty level. All of the employable and employed poor cannot be dealt with by training in a short period, and even a low unemployment rate does not guarantee adequate income to all workers.

III
Social Insurance

The first major Federal income maintenance programs in the United States were established by the Social Security Act of 1935. This Act adopted social insurance programs, related to labor force participation and financed by contributions, as the basic transfer mechanism for maintaining income. Assistance programs (discussed at length in the next Chapter) were also placed in the Social Security bill because the insurance approach was not an effective means of coping with immediate income needs. It was expected that these assistance programs would wither away as social insurance programs matured and provided incomes to increasing proportions of those not working.

Risks which are predictable for a group but outside the control of the individual household are covered appropriately by an insurance program. The basic objective of the social insurance programs is to replace earnings lost by individuals when they retire or when they are removed involuntarily from the labor force due to death, disability, or unemployment. American social insurance programs are tied closely to work and earnings and are financed by employee and/or employer taxes or contributions. They make payments to those eligible for benefits without reference to their means.

Major Programs

The major social insurance programs in the United States are Social Security (Old Age, Survivors, and Disability Insurance), which makes payments to replace lost earnings to insured retirees, their dependents and suvivors, and to families of disabled workers; Railroad Retirement, a Government-managed pension plan for railroad workers; Unemployment Insurance, which provides cash benefits for short periods to insured workers who are unemployed involuntarily; and Workmen's Compensation, which assists persons suffering occupational injuries. A few States operate temporary disability insurance programs for disabled workers. Veterans Compensation

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programs, which make payments to veterans with disabilities related to their military service, are similar to social insurance programs, although benefits are not financed out of payroll tax contributions.

The combined transfer of income in 1968 under all of these programs was almost 5 percent of personal income. The amounts are shown by program in Table A-3-1.

TABLE A-3-1. Social Insurance Benefit Payments, 1968

[in billions]

Program	Benefits
Old Age and Survivors Insurance	$22.6
Disability Insurance	2.3
Railroad Retirement	1.5
Workmen's Compensation	1.6
Veterans Compensation	1.9
Unemployment Insurance	2.2
State Disability Insurance	.5
Total	$32.6

Source: *Social Security Bulletin*, April 1969, and *Veterans Administration Yearbook*, 1968.

Private and Government employee retirement plans, which have much in common with social insurance, accounted for an additional $11 billion in transfer payments to beneficiaries. Private pension plans have been given some income tax privileges and are subject to some regulation by the Federal Government. These Government and private employee income maintenance plans are discussed briefly in this Chapter. The Health Insurance program under OASDHI is taken up in Part V of this Appendix.

Old Age, Survivors, and Disability Insurance (OASDI)

Eligibility Determination

Workers obtain "insured status" under this program by working a specified number of quarters in "covered employment," i.e., employment subject to the payroll tax. Minimum insurance coverage for younger workers is acquired after 40 quarters of covered employment. For workers who entered the system late in their working lives, fewer quarters of covered employment are needed for current eligibility. Eligibility requirements vary slightly for the self-employed and for farm workers.

In addition to achieving insured status, a worker must meet certain standards in order to receive benefits. A worker must be 65 years old to receive retirement benefits, although actuarially reduced benefits can be received at age 62; he must meet certain medical criteria to receive disability benefits.

Benefit payments are subject to an earnings test for workers under age 72 which reduces benefits by 50 percent of any earnings between $1,680 and $2,880 and by 100 percent of earnings over $2,880. There is no reduction of benefits for income other than earnings in order to preserve the incentive for workers to save.

Benefit Determination

The basic benefit, the Primary Insurance Amount (PIA), is calculated as a percentage of a worker's average monthly earnings in covered employment. The average monthly earnings are calculated using a base period that excludes some years of low earnings. This has the effect of raising benefits above what they would be if full lifetime earnings were used.

The PIA is calculated by a formula that weights lower earnings more heavily than higher earnings.[1] Once the basic benefit for a retired individual is determined, a wife or a dependent husband is entitled to an additional 50 percent of the PIA. Survivors' benefits also are calculated from the PIA. A widow, a dependent widower without eligible children, or a dependent parent of an insured worker, receives 82.5 percent of PIA at age 62. If there are two dependent parents, each receives 75 percent of the PIA. Surviving children and widows under 62 with eligible children are entitled to 75 percent of the PIA. However, maximum payment provisions prevent any family from being paid an amount greater

[1] PIA=71 percent of the first $110 of average monthly earnings (AME), plus 25.88 percent of the next $290 of AME, plus 24.18 percent of the next $150 of AME, plus 28.43 percent of the next $100 of AME. AME totaling $650 is the ceiling for computing benefits.

than the benefit that would be paid to a mother and two children.

The PIA formula is designed to replace a higher percentage both of the earnings of low-wage workers than of higher-paid workers, and of the earnings of workers with dependents than of those without. The rationale is that workers who earned low wages or who have dependents cannot manage on much less than their previous earnings. Higher-paid workers and those with fewer dependents are more likely to have other resources in addition to their OASDI benefits. Thus, despite the absence of a means test, an element of presumed need is taken into account.

Since workers can receive quite different total benefits from identical coverage because of different family structure, time of entry to the system, and the like, the relationship between contributions paid and benefits received is quite tenuous for any individual.

Upon retirement, a working woman often finds that her dependent's benefit, based on her husband's employment, exceeds her earned benefit. Thus, after paying payroll taxes during a working career, her benefit may be no higher than what she would have received had she never worked.

Table A–3–2 shows a series of hypothetical cases in which there is considerable variation in the relationship between payments and benefits. In all of these cases it was assumed that the worker earned at least as much as the maximum earnings base through his working career. The lack of a standard relationship between contributions and benefits is due largely to the introduction of presumed need considerations into the program.

In October 1968, 24.3 million persons received benefits from the program. Table A–3–3 shows the characteristics of beneficiaries.

Benefit Amounts

On the basis of the current formula, benefits can range from $55 to $218 for an individual and from $82.50 to $434.40 for an individual with dependents retiring at age 65. Since the base of covered earnings has been raised recently, the highest amounts under these schedules will not be paid as benefits until those currently contributing under this schedule become eligible for benefits. Retirement at age 62 is permitted, but early retirees suffer an actuarial reduction in their monthly benefit of as much as 20 percent.

The average monthly benefit payment for retired workers was $99 in April 1969, for their

TABLE A–3–2. Ratio of Ten-Years' Benefits to Total Tax Payments, OASI, as of January 1, 1966 [a]

Beneficiary category	Ratio
Single individual retiring at age 65	2.3
Married man, wife never employed, retiring at age 65	3.5
Married man (65), wife (62, never employed), child (15)	3.9
Farm worker, wife never employed, retiring at age 65	5.0
Military serviceman, wife never employed, both age 65	6.5
Self-employed individual (nonfarm), age 65	4.4

[a] Taxes accumulated and benefits discounted at 3 percent interest.

Source: Elizabeth Deran, "Income Redistribution under the Social Security System," *National Tax Journal*, September 1966.

TABLE A–3–3. Old Age, Survivors, and Disability Insurance Beneficiaries, October 1968

[in millions]

Type of beneficiary	Number
Retired workers and dependents	15.4
Retired workers	12.2
Wives and husbands	2.6
Children	.5
Disabled workers and dependents	2.3
Disabled workers	1.3
Wives and husbands	.3
Children	.8
Survivors of deceased workers	5.9
Widowed mothers	.5
Children	2.5
Widows and widowers	2.9
Parents	*
Persons with special age-72 benefits	.7
Primary	.7
Wives	*
Total	24.3

* Under 50,000

Source: U.S. Department of Health, Education, and Welfare, Social Security Administration, *Monthly Benefit Statistics*, Dec. 17, 1968.

wives and husbands it was $51, and for their children it was $38. These benefits are the principal source of income for most aged households, and the sole source for many. If these benefits were excluded from their incomes in 1965, only one-third of aged households would have had incomes above the poverty level, while with these benefits more than two-thirds were above the poverty line.[2]

Average benefits to the disabled are somewhat higher. As of April 1969, the average monthly benefit for disabled workers was $112, for their wives or husbands $38, and for their children $35. The higher average benefit for disability is due to the stricter eligibility requirements which eliminate the occasional worker whose AME is likely to be lower. Survivors received the following average benefits in April 1969: widowed mothers $75; children $71; widows and widowers $87; parents $88. Almost one million nonaged beneficiary households remained poor in spite of their Social Security benefits in 1965.[3]

Earnings Replacement

Benefits replace almost 75 percent of the earnings of an individual retired worker with average monthly earnings of $74, but the percentage declines to about 50 percent for average monthly earnings of $200, about 39 percent for earnings of $400, and 34 percent for earnings of $600. Beneficiaries with dependents receive a higher percentage of their previous earnings. These replacement rates overstate the extent to which benefits are maintaining the living standards of beneficiaries after loss of earnings, because the computation includes earnings over a long period of time. Thus, the average monthly earnings figure often is considerably below the income levels of beneficiaries immediately prior to loss of earnings.

Effects on Poverty

Social Security benefit increases in the past have been motivated, not so much by a desire to share the benefits of rising National income with those receiving benefits as by the need to do something about the severe economic problems facing those with fixed incomes in the face of rising prices. Nevertheless, in 1965, over three million aged beneficiary households were poor. A recent study indicates that even fairly liberal increases in Social Security benefits together with improvements in private pension plans would not eliminate poverty among older people by 1980.[4]

The Social Security Administration has estimated that raising the minimum Primary Insurance Amount to $100 in 1970 would lift 1.1 million beneficiaries out of poverty. The $100 minimum monthly benefit would amount to an annual income equal to 69 percent of the poverty line for a single person and 80 percent for a married couple (including the spouse's allowance of 50 percent of PIA). However, many beneficiaries would remain poor and, of course, the aged poor nonbeneficiaries would be unaffected.

The cost of raising the minimum Primary Insurance Amount to $100 is estimated to be $2.9 billion, over two-third of which probably would go to presently poor beneficiaries. However, since it is difficult to raise the minimum without making some adjustment in higher benefit levels, the ultimate cost would undoubtedly be higher, while the proportion of total increased benefits going to the poor would be lower.

Clearly, raising OASDI benefit levels would be inefficient in eliminating poverty among the population groups it covers because of its lack of selectivity. Each increase in benefit levels increases the income of poor beneficiaries—but also increases the income of the many non-needy

[2] Mollie Orshansky, "Counting the Poor: Before and After Federal Income Support Programs," *Old Age Income Assurance, Part II: The Aged Population and Retirement Income Programs,* Joint Economic Committee, Subcommittee on Fiscal Policy, 90th Congress, 1st Session, 1967, p. 223.

[3] Orshansky, *op. cit.*

[4] James H. Schultz, *The Economic Status of the Retired Aged in 1980: Simulation Projections,* U.S. Department of Health, Education, and Welfare, Social Security Administration, Research Report No. 24, 1968, pp. 49 and 54.

beneficiaries significantly. The proportion of an increase in benefits going to the poor will vary with the formula used. A study prepared recently at the Department of Health, Education, and Welfare indicated that as little as 14 to 19 percent of increased benefit payments from overall increases in benefits ranging from 10 percent to 50 percent woud go to the poor. A 50 percent benefit increase would have removed less than half of the aged poor from poverty.[5] This reflects the success of the program in keeping many beneficiaries out of poverty. But the more successful a program has been in keeping its beneficiaries out of poverty, the smaller the proportion of any increment in benefits that can go to the poor.

TABLE A-3-4. Coverage of the Labor Force Under OASDI, 1967

[in millions]

Labor force group	Number
Total paid employment (including self-employment	77.9
Eligible for coverage	72.6
Coverage in effect	69.9
Not eligible for coverage [a]	5.2

[a] Includes some agricultural workers, Government employees, domestic service workers, and others who are not eligible for coverage.

Source: *Social Security Bulletin,* March 1969, p. 51.

Program Coverage

In 1967, 92 percent of all persons who reached the age of 65 were eligible to receive OASDI benefits, and coverage is increasing. About 84 percent of persons currently age 65 or over receive benefits. Nevertheless, OASDI is not universal even as an employment-related program. Several million Americans will continue to face old age with no right to a benefit or with only minimal coverage. This group includes the chronically unemployed, those who have spent much of their lives in institutions, dependents outside marriage, and those who have been supported by income from property. Except by blanketing-in all of the aged, as has been done for persons over 71, there is no way to make OASDI a universal program. Making the program universal would break the link with employment.

Financing and Administration

The OASDHI program is financed by an earmarked payroll tax of 9.6 percent (1.2 percent for Health Insurance), with half paid by the insured worker and half by his employer. The tax rate is scheduled to increase to 11.8 percent by 1987. Current contributions are used to pay current beneficiaries rather than the contributor himself when he retires. Insured workers earn the right to a future benefit which will be paid by the then-current working generation.

The OASDI trust funds stood at $25.5 billion at the end of the 1968 fiscal year, an amount approximately equal to one year's benefit payments. The funds have not grown as fast as benefits for the last several years and, under present policy, will grow no faster than total benefit payments in coming years.

The Federal Government administers the program, maintaining over 700 local offices to process claims and deal with applicants and beneficiaries. Eligibility determination and benefit calculations are rapid and impersonal, leaving little discretionary authority to administrators over these crucial aspects. Administrative costs are low—an estimated 2 to 3 percent of benefits paid.[6]

Evaluation

Judged by most of the criteria for transfer plans discussed earlier, OASDI stands up quite well. Rights and conditions for benefits are specified clearly and administrative costs are low. Taxes and benefits may have some distorting effects on economic decisions. One study estimates that there is a $0.7 billion economic efficiency loss due to misallocation of resources that is attributable to the employer share of the payroll tax. When compared to the effects of other taxes, however, this

[5] U.S. Department of Health, Education, and Welfare, Office of the Assistant Secretary (Program Coordination), *Income and Benefit Programs,* October 1966, p. 16.

[6] Robert J. Meyers, "Administrative Expenses of the Social Security Program," *Social Security Bulletin,* September 1969, p. 20.

is not high. In addition, there may be a slightly adverse impact on aggregate employment from the employer tax.

While benefits need not be equal to contributions in a social insurance scheme, individual equity would require proportionality. As we have seen, however, the relationship between taxes paid and OASDI benefits received can vary widely. The system does not stand up very well on this criterion, since an estimated one-third of OASDI benefits are unearned.[7] Thus, the program redistributes $8 billion. This redistribution flows from higher to lower-wage earners, from those without to those with dependents, from those eligible beneficiaries who work to those who retire, and so on. Some of the redistribution is perverse in relation to income since some of the unearned benefits go to those whose incomes in old age are relatively high, and a high proportion to those who are not poor. Clearly OASDI has suffered from attempts to make it serve ends for which this kind of social insurance is not well-suited. In an effort to provide adequate incomes for those covered, individual equity criteria have been violated. It is clear, though, that benefits are not adequate for many of those whose primary source of income is OASDI. It is also clear that the system as designed cannot meet those needs. A program which makes benefit payments related to earnings cannot pay adequate benefits to those with inadequate earnings records.

Railroad Retirement

Railroad Retirement is a Federally-operated program for about 700,000 employees of the railroad industry. The program came into being in 1937 to save private railroad pension plans from incipient bankruptcy. While it is basically a pension plan for one industry, it is Government-operated and integrated with OASDI.

[7] Elizabeth Deran, "Some Economic Effects of High Taxes for Social Insurance," in *Old Age Income Assurance,* Joint Economic Committee Print, Subcommittee on Fiscal Policy, 90th Congress, 1st Session, 1967.

Benefits of almost $1.5 billion were paid in 1968 to almost one million beneficiaries, two-thirds going to retired and disabled workers and the other third to survivors. The benefit formula for Railroad Retirement is similar to the one used in the OASDI program, except that benefits are guaranteed by law to be at least 10 percent higher than those the beneficiary would have received had he been under Social Security.

The program is financed by a tax, levied equally on employers and employees, of 17.9 percent in 1968 (including 1.2 percent for Health Insurance). This is 9.5 percentage points above the combined OASDHI rate. In later years the Railroad Retirement rate is scheduled to remain 9.5 points above the OASDHI rate until a maximum of 21.3 percent is reached. The Railroad Retirement Fund is reimbursed by the OASDI fund for benefits earned but not paid because retirees draw benefits from the Railroad Fund only.

To qualify for a railroad pension a person must have ten years in covered railroad employment and a current attachment to the industry. Otherwise, railroad credits are combined with OASDI credits, and the pension is paid by OASDI. Workers can qualify for pensions under both plans.

Benefits are employment-tested in that they are not paid in any month for which the recipient works for a railroad employer or the employer from whose service he retired. Under OASDI the retirement test penalizes any labor force participation, while under Railroad Retirement benefits are denied, in general, only for working in the railroad industry. Thus, railroad retirees have a better opportunity for improving their income in old age than do OASDI beneficiaries.

Unemployment Insurance

The objective of Unemployment Insurance programs is to provide cash benefits to regularly employed workers during limited periods of involuntary unemployment. The Social Security Act of 1935 exempted States with Unemployment

Insurance programs from 90 percent of the Federal employer payroll tax, and all of the States now operate such programs.

In addition to their regular Unemployment Insurance programs, the States also administer two unemployment insurance programs for the Federal Government, one for Federal employees and one for ex-servicemen. The Federal Railroad Retirement Board administers an unemployment insurance program for railroad employees.

Eligibility

A worker becomes eligible for benefits after a certain period of insured employment. The length of time for which benefits may be paid depends on the number of weeks of covered employment that the worker has had.

Nearly all States provide benefits for a maximum of 26 weeks. However, the duration of benefits for each individual varies with his past earnings and employment experience in most States. In many cases, then, a claimant is not entitled to benefits for the maximum period. In 1967 about one-third of all beneficiaries in three Southern States and one-quarter in 25 other States exhausted their benefits while still unemployed. In recessions the proportion of workers exhausting their entitlement rises significantly. During two recessions in the past ten years Congress has extended Unemployment Insurance benefits beyond the usual maximum period and financed the extension with increased Federal unemployment payroll taxes.

A worker must register with the Employment Service if he is drawing benefits, and be prepared to accept suitable employment if offered.

Benefit Levels

In 36 States the weekly benefit is a specified proportion of the claimant's average wages during his highest quarter within a specified period; in other States it is a percentage of the worker's average weekly wage, with a ceiling set at 50 or 60 percent of the State's average weekly wage. On January 1, 1969, the maximum weekly benefit ranged from a low of $34 in Mississippi to $72 in Hawaii. Eight States pay an additional allowance for dependents.

Weekly benefits were about 50 percent of the average wage in every State in 1939, but have not kept up with the growth in wages. Currently, weekly benefits are often too low in relation to lost wages to enable workers to meet basic and nondeferrable expenses. The maximum benefit in States without an allowance for dependents ranges from 31 percent to 60 percent of the average weekly covered wage; in the few States with dependents' allowances, it ranges from 31 percent to 50 percent of the average weekly covered wage. For the Nation as a whole, the $43 average benefit payment in 1968 was about 34 percent of the average weekly wage in covered employment.

Coverage

In 1968 more than 50 million workers were covered by State Unemployment Insurance programs. For the Nation as a whole, 80 percent of nonagricultural employment was covered, but there was a wide variation among States, ranging from 100 percent coverage in Hawaii to 59 percent in North Dakota. More than 26 million workers, almost one-third of the labor force, were not covered because their employer was exempt from the Federal Unemployment Insurance tax or because they were self-employed. This group included: State and local government employees, domestic service workers, employees of nonprofit organizations, those working for very small firms, and most agricultural workers.

The restrictive coverage and benefits of the Unemployment Insurance program can be attributed, in part, to the problems which unemployment presents as an insurable risk. There is an interdependency among employable units which makes predictability and, therefore, actuarial soundness in program financing, difficult to achieve. It is also difficult to determine the extent to which unemployment is involuntary for a particular individual. Moreover, employees do not contribute directly toward their own benefits. These problems have led many employers and

legislators to believe that costs of the program could get out of hand, and have hampered attempts to improve the programs.

Many of the gaps in coverage reflect conscious choices not to insure seasonal jobs, where large annual periods of unemployment are predictable. A study of the Massachusetts Unemployment Insurance program shows that about one-third of benefits paid are for seasonal unemployment and that four industries accounted for a disproportionately large share of aggregate benefit payments.[8]

Financing

Unemployment Insurance is financed by a 3.1 percent Federal payroll tax. Employers may claim a tax credit for 2.7 percent of their covered payroll if taxes are paid to a Federally approved State Unemployment Insurance plan. The National average effective employer tax rate on taxable wages up to $3,000 per worker per year in 1968 was 1.5 percent. Rates vary in each State in response to changes in the volume of benefit payments. As a result of this practice, tax rates tend to rise in recessions and fall in periods of prosperity, exerting a perverse economic effect.

Federal law requires the States to rank employers according to the amount of Unemployment Insurance benefits they generate in relation to their payrolls and to lower the taxes of those employers given a merit rating. As a result of merit rating, employer tax rates vary widely in and among the States. Employers are given an incentive to stabilize employment but also to contest employee claims, and to lobby for continuation of low benefit levels. Merit rating can be expected to be effective in reducing unemployment only if individual employers have power to control unemployment. But many employers have no power to even out seasonal production and employment patterns or to arrest declines in demand for their products.

[8] Charles Warden, "Unemployment Compensation in Massachusetts," Otto Eckstein, ed., *Studies in the Economics of Income Maintenance* (Washington, D.C.: Brookings Institution, 1967), pp. 88–89.

Workmen's Compensation

The statutory framework of Workmen's Compensation comprises 54 separate acts: 50 State acts, one act each for the District of Columbia and Puerto Rico, and two Federal acts. During 1967, Workmen's Compensation programs covered slightly more than 80 percent of the employed labor force. The programs are financed by employer premiums paid to either contracting private insurance carriers, a State fund, or employer self-insurance reserves. Under 31 laws coverage by employers is compulsory; under the remaining 23 it is elective, but the employer not electing loses his right in court to use certain legal defenses against damage suits.

The programs made compensation awards of $1.6 billion and paid medical benefits of $0.8 billion in 1968. Two-thirds of the benefits were paid by private carriers. Benefits are paid in lump sum or in monthly amounts, depending on circumstances. They are paid for temporary total disability, permanent total disability, and permanent partial disability. Death benefits are paid to dependent survivors. Although the laws were envisioned as wage replacements, limits set on periodic and aggregate payments and schedule payments for specified injuries have compromised that objective. Wage replacement rates vary widely but seldom attain the usual statutory goal of two-thirds replacement.

Veterans Compensation

Veterans Compensation generally is not considered as a form of social insurance, since it is not financed by a payroll tax. However, it is a program in which society assumes the risk of injury for those serving in the Armed Forces. (Veterans benefits not based on service-connected death or disability are discussed in the next Chapter.) Payment features are quite similar to other forms of social insurance. Benefits are paid to wartime and peacetime ex-servicemen who incurred a disabling condition because of military service. In fiscal year 1968, 2 million veterans and 0.5 million dependents of deceased service-

men received $2 billion in Veterans Compensation benefits.

Monthly compensation payments are related to the degree of disability. Disability ratings ostensibly reflect loss of earning power, but they do not take into account the physical and mental requirements of the veteran's prior civilian occupation, perhaps because he has access to intensive vocational rehabilitation. For a given disability rating, benefits for peacetime injuries are 80 percent of benefits for wartime injuries. Currently, wartime disability benefit levels range from $23 monthly for a 10 percent disability to $400 monthly for a 100 percent disability. Additional benefits are paid to veterans who suffered loss of limbs or organs, or who are helpless. These additional benefits may bring total compensation to as high as $950 per month. For veterans rated 50 percent or more disabled, dependents' allowances are provided.

Monthly support payments also are made to surviving dependents of veterans who died in service or later from effects of military service. Benefits for a widow are $120 plus 12 percent of the current monthly basic pay received by a serviceman of the same rank and years of service as the deceased veteran. Other allowances are provided for children and parents of the veterans. On June 30, 1968, Veterans Compensation benefits were being paid to almost 160,000 widows, 74,000 children, 180,000 dependent mothers, and 68,000 dependent fathers.

Veterans Compensation has elements of income replacement and indemnification for injuries in service. Some indemnification for occupational, physical, and psychological impairment is justifiable in Veterans Compensation as it is in Workmen's Compensation but, in general, veterans are treated more generously than industrial workers.

Temporary Disability Insurance

Four States have temporary disability insurance programs that provide for maintaining the incomes of workers who are unable to work due to nonoccupational short-term disability. These programs are small, paying benefits of $0.5 billion in 1968.

In three States, California, New Jersey, and Rhode Island, these programs are operated as an extension of Unemployment Insurance; in New York the program follows more closely the State's Workmen's Compensation Act. In 1967 about 14 million workers were covered. The types of workers excluded are interstate railroad workers, Government employees, and some employees of nonprofit institutions. Domestic employees are excluded in three States. Employers and self-employed persons and agricultural workers are covered only in California. The maximum benefits in these programs have tended to lag behind average statewide wages.

Employee Pension Plans

Employee retirement systems are offered by Federal civilian and military agencies, State and local governments, and many private organizations. They provide retirement incomes to those who fulfill specified employment requirements in a particular organization or industry. Though limited in scope, these plans have many of the characteristics of social insurance programs and must be considered briefly in any review of such programs.

Generally workers covered by private employee pension plans also are covered by OASDI. This is not the case, however, with Federal civilian employees, some State and local government employees, and workers in uncovered nonprofit institutions. Many other workers have acquired coverage under more than one employee retirement plan as well as under OASDI, although precise data on the extent of overlapping coverage have not been developed.

As a result of this uneven distribution of pension plans, one individual may work throughout his lifetime as an agricultural laborer, having earned only the right to an impoverished old age. Another individual may retire after 20 years of service with a military pension and the right to

an OASDI benefit at age 65. He may then work in industry earning the right to a private pension. At age 65, he may enjoy an income as large as any he received when actively employed.

In 1962, private and Government employee pension plans contributed 11 percent of the income of aged couples and 8 percent of the income of unmarried aged persons.[9] Within this amount, benefits paid from private pension plans alone provided about 3 percent of the total income of the aged, while Government employee plans contributed the greater portion.

Most private pension plans are designed as a supplement to the OASDI program, not as a sole source of retirement income. In 1966, private pension plans paid beneficiaries an average of $1,200 a year, although the range in payments was very large. Because the size of a private pension benefit is strongly correlated with non-pension income, pension benefit payments are concentrated in the middle and upper-income classes of the aged.

Combined coverage under Government and private pension plans included about 26.4 million households in 1966. It has been estimated that less than half of those covered by private pension plans actually will draw benefits under their present plan or any private plan.[10] Most employees lose their rights to private pensions if they change employers. Only a few pension plans vest transferable credits in the employee, except after a certain age and length of service. Thus well-defined rights are not made available to younger participants.

As supplements to OASDI, private plans serve a worthwhile purpose, despite the shortcomings noted. Broader coverage, which would increase the chances that persons covered eventually would draw a pension from some plan, could contribute much to the overall effectiveness of private plans relative to public retirement income systems.

Government employee pension plans serve as substitutes for OASDI coverage for Federal employees and are sometimes integrated with OASDI for State and local government workers. The government retirement plans are often similar to OASDI, with benefits weighted towards workers with low earnings. The diversity of plans makes it difficult to generalize about State and local government pension plans.

In a recent study, it was demonstrated clearly that the entire system of public and private pension programs is not adequate to meet the income needs of retired workers. The study found that the existing pension system could be expected by 1980 to have produced a sizable upward shift in the distribution of pension income for the aged, but about 50 percent of aged couples could expect to receive total pension incomes of less than $3,000, and slightly over 86 percent of the unmarried aged could expect to receive less than $2,000.[11]

Conclusion

Social insurance and related programs in the United States have achieved considerable success in cushioning drops in income among households eligible for benefits. Frequently, these households are kept from falling into poverty when death, disability, retirement, or unemployment occur. In 1965, 59 percent of Social Security beneficiary households would have been poor were it not for their benefits, and 56 percent of Unemployment Insurance recipients would have been poor in the absence of that program in 1961.[12]

But while social insurance has been effective for dealing with transitory poverty and in pre-

[9] Lenore A. Epstein and Janet H. Murray, *The Aged Population of the United States,* U.S. Department of Health, Education, and Welfare, Social Security Administration, Office of Research and Statistics, Research Report No. 19, p. 291.

[10] Merton C. Bernstein, *The Future of Private Pensions* (Glencoe, Illinois: The Free Press, 1964), p. iii.

[11] James H. Schulz, *op. cit.,* p. 54.

[12] Orshansky, *op. cit.,* and Robert S. Lampman, "How Much Does the American System of Transfers Benefit the Poor?" in Leonard H. Goodman, ed., *Economic Progress and Social Welfare* (New York: Columbia University Press, 1966).

venting poverty, it has not helped chronically poor households to escape from their poverty, nor can it do so. As long as most benefits are related to contributions based on earnings—no matter how tenuously—those who have no earnings or who have very low earnings are left uncovered or inadequately protected by the programs. Social insurance programs do not alter society's basic income distribution mechanism. Consequently, the same factors that result in many persons having very low earnings and spotty employment records will leave many of the same people and their dependents with low incomes upon retirement, disability, death, or unemployment.

The attempt to provide for social insurance beneficiaries with a minimum income by redistribution from higher to lower contributors is contrary to the principle of the "earned benefit" or "individual equity" approach, which distinguishes social insurance from assistance programs. While it is possible to dispense with these original conceptions of social insurance and to design the benefit structures of such programs to provide minimum income floors for their participants, this would diminish the rational basis for supporting them as insurance programs. These programs may not be able to maintain their popular support if benefit schedules diverge more and more from the earned benefit principle. Moreover, a growing divergence might raise doubts about continuing to finance the programs through individual and employer contributions.

Because no program exists to provide a minimum income floor for all households, such objectives have been infused into social insurance programs. The establishment of a means of providing a minimum income for all would allow benefit schedules of social insurance programs to focus on providing adequate income replacement for the lost earnings of their contributors.

IV
Cash Income Support Programs

Many Government programs directly support individual cash incomes through cash grants. The major income support programs aimed at the poor are Public Assistance and Veterans Pensions. Broadly conceived, the Federal income tax also supports income through its exemptions, deductions, and special features, which allow some people to retain income that would otherwise be paid out in taxes. Agricultural price support programs and various other Government subsidies also help maintain individual incomes.

Public Assistance

Public Assistance is the major cash income support program aimed specifically at the poor. The basic components of current Public Assistance programs were enacted in the midst of the Depression in 1935, along with Old Age and Survivors Insurance and Unemployment Insurance. Aid was granted only to certain categories of the needy: the blind (Aid to the Blind), the aged (Old Age Assistance), and mothers with dependent children (Aid to Families with Dependent Children). Membership in one of these categories was accepted as proof of nonemployability. In later years a program for the disabled (Aid to the Permanently and Totally Disabled) was added, and an Unemployed Father (AFDC–UF) provision was added to AFDC to assist families with an unemployed father in the home. These Federally supported programs cover the bulk of Public Assistance, but there are also State and local programs of General Assistance in which the Federal Government has no part. The General Assistance programs are not necessarily restricted to any categorical group and are small in scope. In February 1969 more than 10 million Americans were receiving aid from all Assistance programs, including General Assistance.

Although the programs are financed jointly by Federal, State, and local governments, they are administered at the State and local level. The

aggregate expenditure for cash assistance benefits in 1968 was $5 billion, of which the Federal share was $3.1 billion. Table A–4–1 shows the expenditures by program for calendar 1968, and the number of recipients aided by each program at some point during the year.

TABLE A–4–1. Number of Recipients of Public Assistance and Money Payments to Recipients by Program, 1968

Program	Number of recipients [a] (millions)	Benefits (millions)	
		Total	Federal
Old Age Assistance (OAA)	2.3	$1,673	$1,135
Aid to Blind (AB)	.1	88	50
Aid to the Permanently and Totally Disabled (APTD)	.9	655	389
Aid to Families with Dependent Children (AFDC) (Includes unemployed father provision AFDC–UF)	8.0	2,824	1,540
Total	11.3	$5,240	$3,114

[a] Aided any time during calendar 1968. The number of persons receiving aid at any particular time is somewhat lower.

Source: U.S. Department of Health, Education, and Welfare, National Center for Social Statistics.

Local General Assistance programs provided another $0.4 billion to 800,000 recipients.

The Federal Role in Administration

Because these are grants-in-aid to States to support their programs, individual States have great latitude in shaping their own programs and, indeed, in deciding whether or not to operate any program. No program is mandatory for any State. To be eligible for Federal matching funds, a State must meet only a small number of Federal requirements. While most States have elected to join all programs, they did not do so all at once. Only twenty-five States, for example, have instituted AFDC-Unemployed Father programs to aid families with an unemployed father in the home, as authorized under a 1961 Amendment to the Social Security Act. Nevada has never adopted a program of Aid to the Permanently and Totally Disabled. Similarly, there is no Federal power to set payment standards or to require States to pay benefits equal to the need standards which they have determined themselves. Adequacy of grants in a State depends entirely on the will and the priorities of the State Government. If a State does not have the funds or chooses not to spend them on Public Assistance, the Federal Government has little recourse.

The most important mechanism for control that the Federal Government has at its disposal is the power to reject a State plan on the basis of noncompliance with Federal law, and to cut off funds completely. In no case has a State been discontinued. At any given time, many State programs are not in compliance with one or another provision of the Federal regulations, but the administering agency is hesitant to cut off funds, since those hurt will be the poor, not the State.

Thus, there are, in effect, fifty different cash assistance programs each of OAA, AFDC, and AB, twenty-five programs of AFDC–UF, and forty-nine programs of APTD (exclusive of programs in the District of Columbia, Guam, Puerto Rico, and the Virgin Islands). There are then over 300 separate programs of cash Public Assistance receiving Federal funds, covering different categories of the population under widely varying standards.

Clearly, it is impossible to describe welfare as a monolithic structure. Complete and accurate knowledge of the actual operations of State and local programs is not available at the Federal level. New administrative guidelines may be issued by the Federal Government with comparatively little information on how they will be interpreted and instituted below this level. Changes can be implemented locally without the knowledge of Federal policymakers. The multiplicity of governments involved has made effective policy coordination nearly impossible.

Eligibility Determination

Less than two-fifths of the poor receive aid from any of these assistance programs. Because programs are restricted to specific categories, many poor persons are excluded entirely. Poor

working men and their families are ineligible for Federal programs, and only a few States supplement earnings through local programs. Eligibility is determined by an income which falls below a minimum standard set by the State of residence, membership in an aid category, and a variety of nonfinancial tests. The nonfinancial tests seem to keep many low-income persons in eligible categories of the population from receiving benefits.

Membership in an aid category is determined as follows: for OAA, one must be 65 years old or more; for AB, one must have less than 20/200 vision in the better eye with correcting lens; for APTD, one must be certified medically as permanently and totally disabled and usually one must need the care and support of another person; and for AFDC, there must be a child who is deprived of the care and support of at least one parent due to absence, incapacity, death, or unemployment.

In ascertaining the income of potential aid recipients, the cash value of assets generally is considered as income, so that they must be liquidated by would-be recipients. An exception is frequently made for property used as a home, but a limit is placed on its value. In 31 States, liens are taken on the homes of recipients.

Nonfinancial eligibility tests vary widely among the States, and within each State for the different categories of assistance. Factors which have been commonly used by States include:

- requirements that applicants be U.S. citizens;
- requirements that applicants have resided in the State for some period up to five years;
- requirements that anything in excess of small amounts of assets, or insurance policies be disposed of to be eligible;
- requirements that a woman maintain a "suitable home" to be eligible for AFDC. Under this provision official scrutiny of morals is encouraged; and
- requirements that relatives' income be taken into account in determining eligibility, despite the fact that some relatives (e.g., grandparents) have no legal responsibility to provide support, and regardless of whether any support is, in fact, provided.

States have been free to apply these and other criteria so as to restrict eligibility and minimize welfare expenditures, despite the fact that most of the programs' costs are paid by the Federal Government. Many of these regulations have operated to treat welfare recipients as a class apart; they have imposed restrictions on recipients that would not be enforceable if applied to the general public under civil law.

In recent years, many of the rules established by State legislatures and welfare departments have been overturned by the courts on constitutional grounds. Residence requirements were held unconstitutional by the Supreme Court in a decision handed down in April 1969. "Suitable home" provisions also were overturned. The number of cases in which well-established State regulations have been found to be unconstitutional is particularly disturbing in view of the number of years that those regulations have been applied to applicants for and recipients of Public Assistance.

Budget Determination

The income level which is needed to sustain a poor individual or family is determined by States in accord with periodic budget studies. The amount of budgeted need varies by program and with family size and composition. The budget levels set are often many years out of date, since they are adjusted infrequently. These budget levels are not necessarily the amount which the State will pay in benefits.

The amount States set as needed for an AFDC family of four ranged from $144 in North Carolina to $332 in New Jersey and $419 in Alaska in 1968. For an aged woman living alone, the "need" ranged from $82 in South Carolina to $182 in Nebraska and $262 in Alaska in the same year. The average budgeted need for a family of four on AFDC was $238 in April of 1968, or slightly below $60 per month per person. For a single elderly person the average budgeted need at the same time came to $124. Thus,

it is clear that budget standards vary considerably for individuals, depending on the program for which they are eligible.

Table A–4–2 shows the cost standard for California, an above average State, for adult recipients in each of the Federally-aided programs. The variation in allowable rent and in the food budget among programs seems unrealistic: It is unlikely that the food requirements of an active adult female raising children are less than those of an aged person, yet the AFDC mother is allotted $26.50 for food per month against $39 for a recipient of Old Age Assistance.

Benefit Amounts

Not only are budget standards generally inadequate, but most States do not pay the full amounts that they have set as minimum requirements. Twenty-six States make payments that fall short of their own minimum standards in AFDC and sixteen in OAA. The reduced payments are determined by applying reduction formulas and imposing legislative ceilings on payments to cases. Charts 1 and 2 show monthly cost standards for basic needs in two common case types, and the amounts actually paid to a case with no other income. Thus, Alabama which has a cost standard of $177 for a family of four on AFDC pays only $89. Rarely do payments approach the poverty level.

The reduction formulas lead to wide variations among States in *average* payments to recipients. In January 1969 AFDC recipients received an average of $9.50 in Mississippi and $65.50 in Massachusetts. These variations exceed by far variations in budgeted cost standards and cost-of-living differentials. This results in considerable unmet need among recipients, where unmet need is defined as the difference between the cost standards and actual benefits paid. In 1967, for example, 34 percent of the families on AFDC had unmet needs, sometimes of as much as $100 per month. A distribution of the amounts of unmet need by size is shown in Table A–4–3.

Public Assistance payments raise recipients' living standards more than no payments at all, but

TABLE A-4-3. Amount of Monthly Unmet Need of AFDC Cases, November 1967

Amount of unmet need	Number of cases (thousands)	Percent of cases
None	847	66%
$1-19	152	12
20-49	133	10
50-74	59	5
75-99	36	3
100 or more	50	4
Total	1,277	100

Source: Unpublished preliminary tabulations prepared for the Commission, 1967 Survey of AFDC Cases.

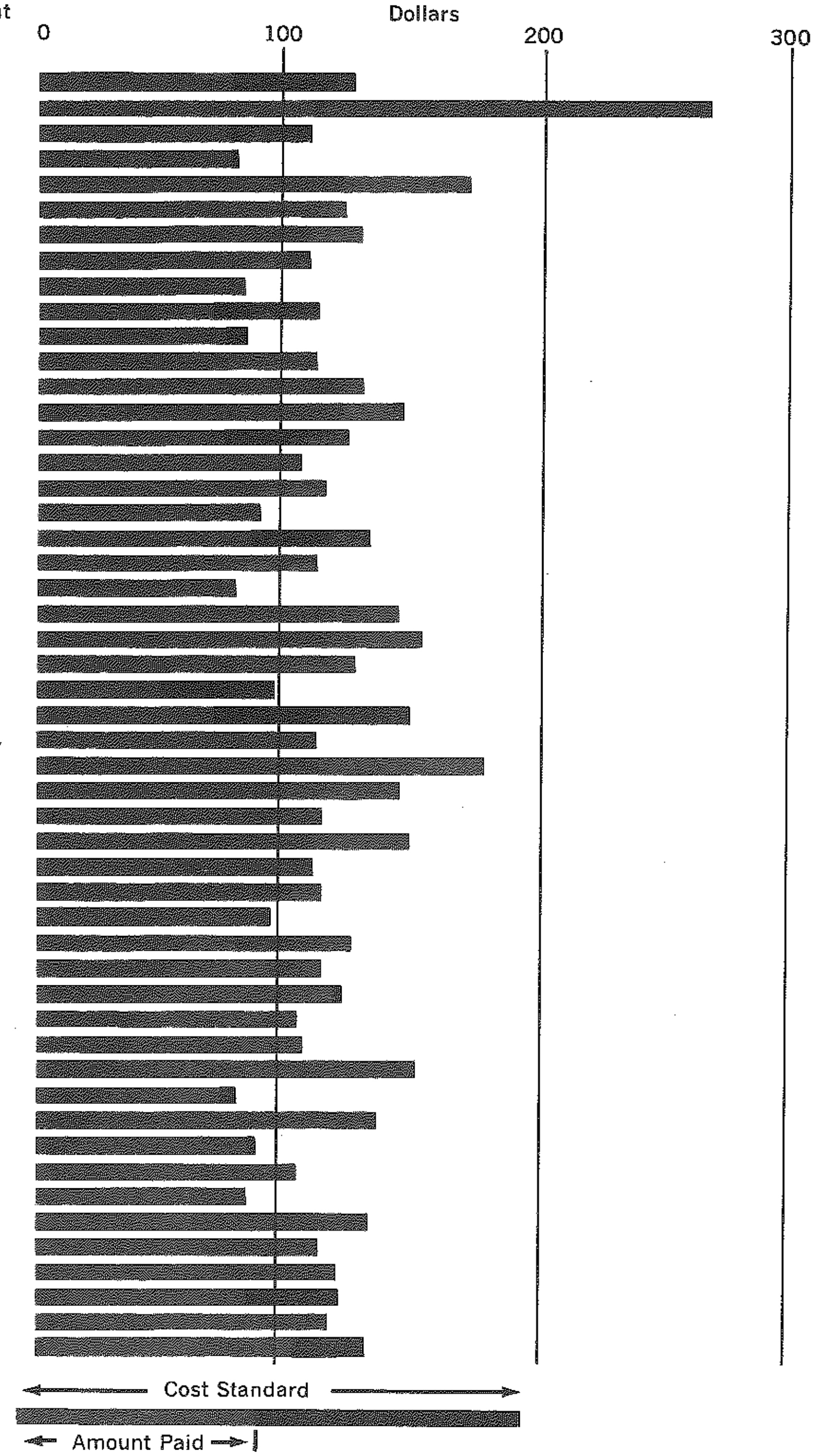
TABLE A-4-2. Public Assistance Need Standards for Adult Recipient, by Program, California, 1969

Consumption items	Aid to Blind	Old Age Assistance	Aid to Disabled	AFDC
Food	$41.00	$39.00	$35.00	$26.50
Clothing	12.50	11.50	9.50	10.85
Personal and incidental	15.00	14.00	8.00	2.40
Recreation and education	6.00	6.00	6.00	3.50
Community participation	4.20	4.00	—	—
Telephone service	—	—	2.00	—
Transportation	12.00	8.00	6.00	1.00
Services related to disability	—	—	9.00	—
Household operations	4.80	5.00	4.00	6.00
Cost of living increase	14.00	11.00	8.00	—
Intermittent needs	—	—	—	1.75
Expense incident to living alone	—	—	5.00	—
Rent and utilities (maximum allowable)	63.00	63.00	63.00	62.60
TOTAL	$172.50	$161.50	$155.50	$114.60

Source: State of California, Assembly Committee on Social Welfare, *California Welfare: A Legislative Proposal for Reform*, February 1969.

Chart 1. Old-Age Assistance: Monthly cost standard for basic needs of aged woman and amount paid to such recipient, by State, April 1968[a]

	Cost Standard	Amount Paid
ALA.	$128	$85
ALASKA.	262	110
ARIZ.	107	85
ARK.	87	85
CALIF.	162	162
COLO.	124	124
CONN.	132	132
DEL.	107	100
D. C.	87	87
FLA.	111	75
GA.	89	80
HAWAII	110	110
IDAHO	132	132
ILL.	149	159
IND.	128	80
IOWA	105	105
KANS.	114	114
KY.	90	90
LA.	136	89
MAINE	110	110
MD.	86	86
MASS.	143	143
MICH.	152	152
MINN.	126	126
MISS.	96	50
MO.	150	75
MONT.	110	110
NEBR.	182	182
NEV.	145	145
N. H.	149	115
N. J.	150	150
N. MEX.	109	109
N. Y.	115	115
N. C.	94	94
N. DAK.	128	128
OHIO	115	115
OKLA.	122	120
OREG.	101	101
PA.	104	104
R. I.	151	151
S. C.	82	75
S. DAK.	138	138
TENN.	92	90
TEX.	102	102
UTAH	86	86
VT.	134	134
VA.	115	115
WASH.	165	165
W. VA.	128	83
WIS.	113	113
WYO.	135	100

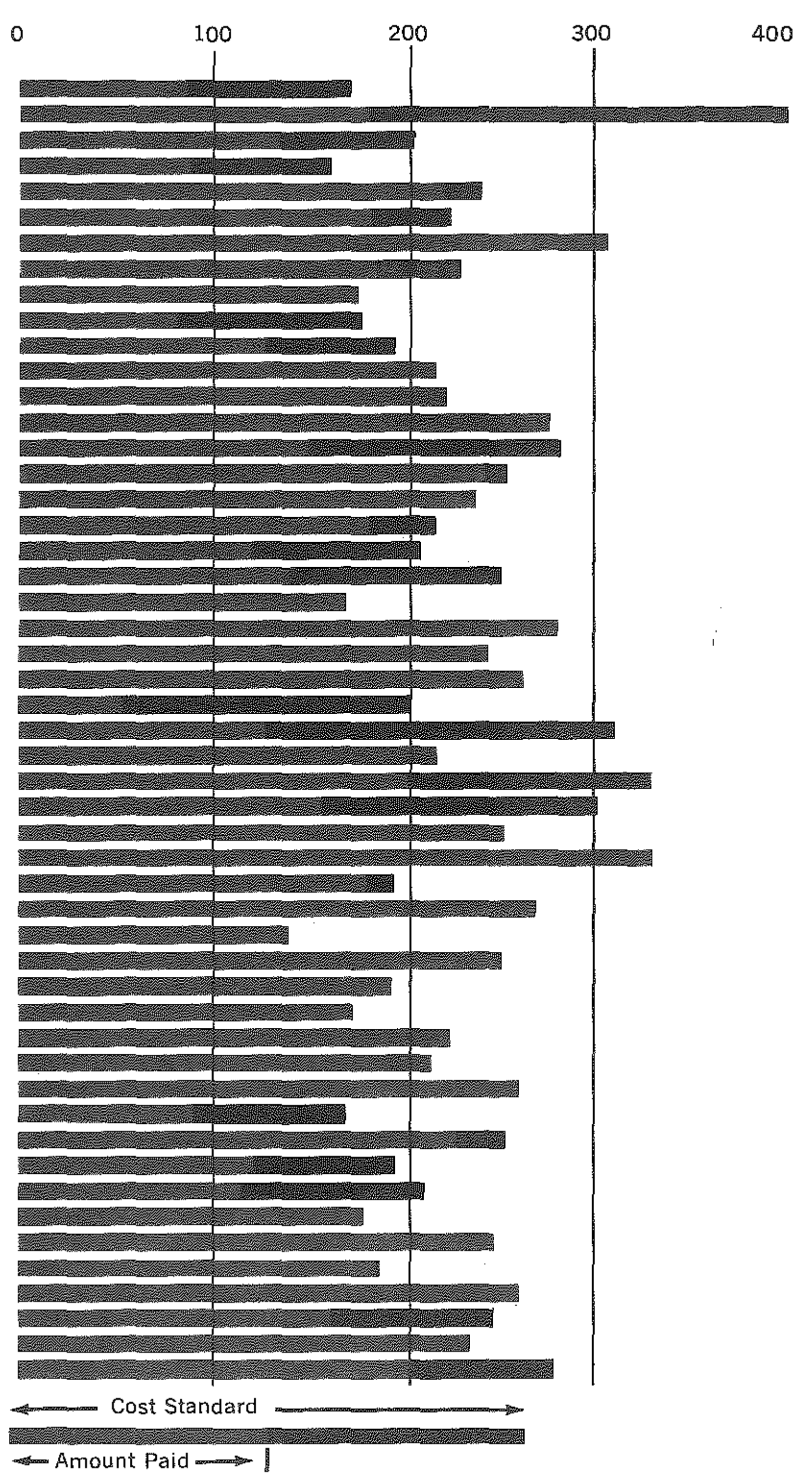


[a] Data based on assumptions that the recipient: (1) is living alone in rented quarters; (2) needs an amount for rent that is at least as large as the maximum amount allowed by the State for this item; and (3) has no income other than assistance.

Source: U.S. Department of Health, Education, and Welfare, National Center for Social Statistics.

Chart 2. Aid to Families With Dependent Children: Monthly Cost Standard for Basic Needs of a Family Consisting of Four Recipients and Amount Paid to Such Family, by State, April 1968[a]

	Cost Standard	Amount Paid
ALA.	$177	$89
ALASKA	419	185
ARIZ.	202	134
ARK.	162	90
CALIF.	244	221
COLO.	222	185
CONN.	307	307
DEL.	236	187
D.C.	184	184
FLA.	189	85
GA.	198	125
HAWAII	225	225
IDAHO	238	238
ILL.	279	279
IND.	287	150
IOWA	256	244
KANS.	237	237
KY.	216	187
LA.	204	116
MAINE	251	137
MD.	178	178
MASS.	288	288
MICH.	246	246
MINN.	266	266
MISS.	201	55
MO.	305	124
MONT.	224	224
NEBR.	330	200
NEV.	300	158
N.H.	254	254
N.J.	332	332
N. MEX.	193	183
N.Y.	278	278
N.C.	144	144
N. DAK.	251	251
OHIO	193	193
OKLA.	175	175
OREG.	226	226
PA.	213	213
R.I.	266	266
S.C.	172	93
S. DAK.	254	229
TENN.	198	120
TEX.	206	114
UTAH	185	185
VT.	249	249
VA.	195	191
WASH.	268	268
W. VA.	248	161
WIS.	239	239
WYO.	278	200



[a] Data based on assumptions that the family: (1) Is living by itself in rented quarters; (2) needs an amount for rent that is at least as large as the maximum amount allowed by the State for this item; and (3) has no income other than assistance.

(Revised 4/23/69)

Source: U.S. Department of Health, Education, and Welfare, National Center for Social Statistics.

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clearly do not provide enough income to facilitate long-range planning or to ease short-run problems substantially. Requirements that assets must be exhausted or signed over to the welfare department reduce financial resources to the lowest level, and make it almost impossible for recipients to accumulate any savings.

The failure to provide enough income to maintain the health of potentially employable persons, to cover costs of training or searching for jobs, or to provide adequate nourishment and clothing for children is inconsistent with a desire to provide recipients with hope for the future. In New York City where AFDC grants are among the highest in the Nation, 30 percent of the welfare mothers with children in school in one survey said that, at times, the children stayed home from school because they did not have the necessary shoes or clothes. Twenty percent reported that they sometimes kept their children home from school because they were ashamed of the way the children were dressed.[1]

Indications come from a variety of sources that many assistance recipients are hungry, due to a need to juggle the food budgets to meet other needs. Allocations for rent are substantially underbudgeted in most areas of the country, and recipients must make up the difference from funds allotted for other purposes. Witnesses at Commission hearings stated that often the money must be taken out of the food budget.

Testimony elicited at field hearings bore witness to the hardships—physical, emotional, psychological, and social—worked on recipients. Several witnesses hinted at engaging in illegal activities to supplement their welfare checks in order to survive. The reactions of these and other recipient witnesses ranged from gratitude for aid but hope for more, to resignation to low living standards, to professed lack of understanding as to why levels were so low, to anger and bitterness and professed knowledge that "the system" is designed to keep them "down."

The following figures from a survey of the AFDC caseload conducted by the Department of Health, Education, and Welfare in 1967, indicate low living standards borne by AFDC families:

- 11.2% had no private use of a kitchen;
- 24.0% had no hot and cold running water;
- 22.5% had no private use of a flush toilet;
- 22.4% had no private use of a bathroom with shower or tub;
- 30.1% had not enough beds for all family members;
- 24.8% had not enough furniture so that everyone could sit down while eating;
- 45.8% had no milk for the children sometime in the past six months because of lack of money; and
- 17.4% had children who stayed home from school sometime in the past six months due to lack of shoes or clothes.[2]

Clearly, recipients of aid are in very poor condition, despite the existence of Public Assistance. Public Assistance generally enables recipients barely to continue to exist.

Characteristics of Recipients

Old Age Assistance recipients have a median age of 76.6 years, 4.1 years higher than the median for the group of all persons 65 and over. Women make up two-thirds of the caseload and 66 percent of them are widows. Because of physical or mental conditions, 17 percent of OAA recipients are confined to their homes and 8 percent are confined to their beds. Over 54 percent live in

[1] Lawrence Podell, *Families on Welfare in New York City—Preliminary Report No. 7: Kinship, Friendship, and Citizenship* (The Center for Social Research, The City University of New York, 1968), p. 3.

[2] U.S. Department of Health, Education, and Welfare, National Center for Social Statistics, *Preliminary Report of Findings—1967 AFDC Study,* October 1968 and *1967 AFDC Study: Preliminary Report of Findings from Mail Questionnaire,* January 1969.

nonmetropolitan areas, and over 35 percent of all recipients live alone.[3]

About half of the APTD recipients are disabled by the chronic diseases usually associated with old age, and one-fourth are disabled by mental diseases and disorders. The recipients are concentrated in older age groups and tend to live in nonmetropolitan areas. Many of them have never been married. Their educational level is extremely low. Of those who worked, most men were laborers and most women were domestic servants. In spite of permanent and total disablement, one-fourth of all APTD recipients live alone. One in twenty live in a hotel or boarding house.[4]

Blind recipients are divided about equally between metropolitan and nonmetropolitan areas. Their median age is 61.3 years, and almost 75 percent are 50 or over. The recipients are divided about equally between men and women, and a large proportion never have been married. Eighteen percent live alone. Their educational level is generally very low. Of the men, 42 percent have not worked in the last ten years.[5]

In almost three-fourths of AFDC cases the father is absent due to divorce, separation, desertion, imprisonment, or other reasons. Most AFDC recipients are urban residents. Most children are quite young, with the median age estimated at about 7.4 years; almost 75 percent are under 13. Although many families are large, almost two-thirds of the families have three or fewer children. In a typical family there is only one adult—the mother—and she is unemployed and probably unemployable in the short-run. Although her educational level is high compared to that of persons in the adult programs, she still tends to be under-educated. Over 40 percent have not completed grade school.[6]

Growth in Welfare

At the time of their enactment, the Public Assistance programs were expected to wither away as the social insurance programs matured and developed. Instead they have grown at an accelerating rate. For, as pointed out in section III of this Appendix, social insurance programs can provide adequate income only to persons or families with long labor force attachments at high earnings. Despite 33 years of maturing of the OASDI system, for example, one million beneficiaries of Old Age Insurance have incomes low enough to receive Old Age Assistance supplementation.

Most of the rapid growth in Public Assistance is accounted for by the AFDC program. The adult programs have remained fairly stable. The number of AFDC recipients has risen from 3 million in December 1960 to 6.5 million in December 1969. Costs have risen from $994 million in 1960 to an estimated $3.5 billion in 1969. Continued growth is projected.

Factors accounting for the recent growth cannot be isolated precisely, but the following seem to account for most of the increase:

- Eligibility requirements have been broadened. Federal legislation since 1961 has enabled States to extend aid to families headed by unemployed parents, to a second adult in the family, to older children if attending school, and to a few other groups.
- Rejection of residency requirements, the "suitable home" provision, and the "man in the house" rule by the Supreme Court has increased the number of families who are eligible.
- States have increased their budget standards, thereby increasing the number of potentially eligible people. A recent study attributes

[3] U.S. Department of Health, Education, and Welfare, Social Rehabilitation Service, "Federally Aided Public Assistance Programs: Program Facts," April 1968 (mimeographed).

[4] *Ibid.*

[5] *Ibid.*

[6] U.S. Department of Health, Education, and Welfare, National Center for Social Statistics, *Preliminary Report of Findings—1967 AFDC Study,* October 1968; and *1967 AFDC Study—Preliminary Report of Findings from Mail Questionnaire,* January 1969.

much of the growth in New York City to this factor.[7]

- An increase in the proportion of poor families applying for welfare. The poverty program and recently organized welfare rights groups have reduced the stigma attached to welfare and encouraged families to apply.

- A rise in the proportion of applicants who are accepted. Welfare departments and individual caseworkers have considerable discretion in determining eligibility and payments. They have become more liberal in exercising this discretion, either as a conscious policy or as a response to a changed political climate.

- A change in the composition of poor families headed by women. While there has been no increase in the total number of poor families headed by women, there are indications that these families who remain poor are more in need of and more likely to receive welfare because of factors such as large family size.

- Increasing urbanization of the population. The great migration from rural to urban areas since World War II has brought more poor people to the city, where a cash income is required for survival, and reduced the number of poor farmers subsisting on crops and in-kind income.

Employment and Welfare

Many assistance recipients have worked in the past, despite the fact that there was little profit in it. Originally, every dollar earned by an aid recipient reduced the payment by a dollar, in effect imposing a 100 percent tax on earnings. In 1962 recipients were allowed to deduct costs of employment, such as bus fare, from total earnings. Thus, if a fatherless family consisting of a mother and three children were entitled to benefits of $160 per month and if the woman earned $60, benefits were reduced by $60, minus costs of employment. The mother's total net income—$160—was no greater than if she had not worked. Her children may have been left unattended, her own housework neglected, and her income unchanged. Yet in November 1967, 18 percent of AFDC cases had some income from earnings. Average monthly earnings of the workers in these families were $138. Of the mothers who worked, the average gross earnings received were $138 per month. In the absence of these earnings, AFDC payments could have been $200 million higher in that year.[8]

In an effort to provide some financial incentive for finding work, the Social Security Act was amended in late 1967 to allow assistance recipients to retain more of their earnings. Currently, they may keep the first $30 and one-third of the remainder of their monthly earnings in addition to their assistance benefits. This change, which imposes a 67 percent marginal tax rate on earnings, is unlikely to reduce either the costs or the number of recipients. In order to get off the program, many would have to earn more than their skills allow. In New York City, the adult in a family of four would have to earn $2.54 per hour for a full year in order to become ineligible for any welfare benefit.[9] Because benefits are based on family size, heads of larger families would have to earn even higher wages before income from wages alone exceeded welfare benefits plus one-third of wages. Yet many people are receiving welfare precisely because their lack of education and marketable skills keeps them from jobs paying adequate salaries.

Assistance recipients commonly remain out of the labor force due to lack of suitable child care facilities at reasonable cost. Despite availability of Federal funds to provide day care, States have been unable to develop facilities. And, as noted in Chapter 6 of the Report, the economics are formidable.

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[7] David M. Gordon, "Income and Welfare in New York City," *The Public Interest,* Summer 1969, p. 64.

[8] Unpublished data from preliminary tabulations of the 1967 Survey of AFDC Cases prepared for the Commission.

[9] Leonard Hausman, "The AFDC Amendments of 1967: Their Impact on the Capacity for Self-Support and the Employability of AFDC Family Heads," unpublished paper, 1968.

Program Administration

Regulations from the Federal Government, all of the State welfare departments, and countless boards of supervisors have produced voluminous, vague, and contradictory sets of rules for implementing the law. Administration is frequently harsh, stigmatizing, and overly attentive to minute details. Regulations require careful verification of facts, and frequent reinvestigation of each case to determine continued eligibility. Thus, it is not surprising that costs of State and local administration, services, and training in the four categorical programs combined were almost $0.8 billion, 15.6 percent of total benefits paid in 1968. Administrative costs in AFDC are 18.5 percent of benefits paid. By comparison, for OASDI the costs of administration are less than 3 percent of benefits.

The discretion given to the line worker in Public Assistance is greater than in any other public program reviewed. In the determination of eligibility, need, benefits, and services, the local official has wide discretion. He can interpret rules and regulations broadly or narrowly, and give or withhold aid according to his satisfaction with the claimant's statements and behavior. While the lowest worker can deny benefits, it usually takes the highest authority to approve. One recent study in a large city found that:

> Depending upon where the recipient lived, and the office he or she was served by, he would have anything from a 15 to 92.3 percent chance of obtaining funds for a needed refrigerator. The greatest range appears to be in providing supplementary funds for child care should the mother be working. There the gap is 81.3 percentage points, from a low of 10 percent to a high of 91.3 percent. Chance and statistical error cannot account for such a variation in practice, nor for the routine spreads of from 60 to 70 percentage points in most items.[10]

[10] *Welfare: The Question of Equal Protection,* A Report by the American Civil Liberties Union of Southern California and the Social Workers Union, Local 535, Los Angeles, May 1968.

In general, assistance is administered as if access to aid were a privilege. Welfare departments rarely have conducted information campaigns to make known the precise requirements, regulations, and entitlements. Indeed, in many areas, the release of this information has been discouraged. Aid recipients have been ignorant and misinformed about many aspects of the Public Assistance programs. Some of this information gap has been filled recently by organizations of recipients. At hearings conducted by the Commission in various parts of the country, witness after witness complained of not knowing why applications were rejected, or of not knowing how to find out why. Literature available to recipients or applicants about public welfare is usually unintelligible to nonexperts. In many areas where there are numerous Spanish-speaking recipients, brochures are available only in English, and most caseworkers speak only English.

At several Commission hearings the more vocal recipients were particularly critical of: rules that penalize AFDC mothers for having any close relationship with a man; elaborate and repeated eligibility checks; budgeting of recipients' benefits without explaining the rules; investigatory surveillance and late night intrusions into homes; mandatory involvement in useless social services; failure to inform recipients of their rights to appeal and their entitlements under law; and provisions that impute income contributions to recipients from relatives who have no legal responsibility to support them under civil law. Assistance recipients point out that participants in no other Governmental programs are treated with the same suspicion or subject to the same degree of supervision.

The arbitrary quality of these features of assistance is used by some recipients to justify disregarding them and "beating the system." Despite court rulings voiding some of these regulations, and Federal regulations prohibiting them, the practices seem to continue in some areas, giving to the lowest caseworker broad control and power

over recipients for which there is no accountability. Much of the dissatisfaction with the system is manifested by recipients in the form of hostility towards the caseworkers as a class. And, caseworkers themselves are dissatisfied with the system since they are torn constantly between desires to help recipients and requirements to investigate them.

Evaluation

While many AFDC recipients who work will improve their total income position from the work incentive provisions, the poor and near-poor who are *not* on assistance are put at a further disadvantage vis-a-vis assistance recipients. Aid currently cannot be given to intact families with unemployed heads in 25 States, or working male heads in any State, under AFDC. Yet, of the 19.8 million poor persons in families with nonaged heads in 1966, 11.7 million were in families with a male head who worked all or part of the year, and many others lived in families in which the male head was unemployed for long periods. These families may have needs equal to or greater than female-headed families, yet they are generally ineligible for assistance. This is inequitable and creates socially undesirable financial incentives.

Under current programs, if an able-bodied father is employed erratically or unemployed, there is a financial incentive for him to leave so his family can get AFDC income. Or, the uncertainty of family income may encourage a mother to separate from her husband so that the children will be assured predictable and reliable income. There is also some incentive for income-splitting. A low-paid, but steadily employed father may become separated from his wife and pay nominal child support as required by the courts. The mother then becomes eligible for AFDC, and their combined income may be in excess of the single income despite the costs of separate residences. While this strategy could constitute fraud if they continued to live together, it is a sound tactic for poor people to bring in a second income. AFDC was created to ease some of the burden of general social and economic problems, but it has in fact reinforced some of these problems through its effect on work incentives and family stability.

While the AFDC–UF program and the General Assistance program in some localities can supplement the income of families headed by employable men, in practice most are excluded by stringent asset tests and the nonfinancial eligibility requirements imposed.

Public Assistance is inequitable in several ways: In addition to the categorical nature of the program, not all who are in equal need receive help because of limitations on eligibility. Those who do receive assistance may receive varying amounts, depending on the program category into which they fall—the aged, blind, etc.—and the State in which they live. And, income positions may be reversed when the combination of welfare plus earnings exceeds what full-time workers can earn.

Trying to improve the present system with its current categorical limitations only leads to compounding these problems, for the basic structure of the program is faulty. It is built on the premise that a sharp line can be drawn between those who can work and those who cannot. Those who can work are assumed to have adequate income from earnings, and then adequate aid can be given to those unable to work. The facts are that such a sharp line cannot be drawn—many welfare recipients do have some earnings—and that many who work do not have adequate incomes. Given these facts, the system as now constituted is untenable.

Veterans Pensions

A variety of cash benefit, in-kind, rehabilitation, and service programs are maintained for veterans. Eligibility for benefits is based on status as a veteran and, occasionally, on need. At the close of fiscal year 1968 an estimated 26 million veterans were potentially eligible to receive VA benefits and services. The total number of veterans, members of veterans' families, and survivors of veterans, in June 1968, totaled 95 million, or about 48 percent of the total civilian population. The number of veterans and members of

their families will increase significantly in the next few years as a result of the Vietnam war.

The veterans programs of concern here are those income support programs based on non-service-connected death or disability. The Veterans Pension program acts as a form of old age assistance, since veterans who are 65 years of age or older are rated 90 percent disabled for purposes of pension eligibility. Pensions of $1.3 billion were paid to 1.1 million veterans in fiscal 1968, and 1.7 million dependents received another $0.8 billion in pensions.

Eligibility requirements are simple and relatively straightforward. Under the current system, income limitations are set at $2,000 if the disabled veteran is single or $3,200 if he has dependents. Widows without children qualify for death benefits if annual income is less than $2,000; a widow with one or more children qualifies if her income is below $3,200. Spouses' earnings are not included in the limitations, and spouses' unearned income is partially exempt. Persons who were on the pension rolls prior to June 30, 1960, may elect to remain on a somewhat different system with more liberal benefits but lower income limits.

It has been estimated that approximately 90 percent of the veterans and dependents receiving benefits under the current law would have been poor without those benefits, while less than 30 percent remained poor after they received pensions.

Compared with Public Assistance, the administration of pensions is a model of objectivity. Like OASDI, there are no residence requirements, no State-by-State variations, no intensive investigations predicated on the assumption of widespread cheating. VA auditing procedures do not reveal any substantial amount of inaccuracy or dishonesty in reporting income.

Other Programs

Farm Programs

Farm programs also had their origin in the Depression of the 1930's. To improve and stabilize the incomes of farmers, the Agricultural Stabilization and Conservation Service and the Commodity Credit Corporation operate the following programs: (1) price support; (2) production adjustment; (3) conservation and land-use adjustment assistance; and (4) disaster relief. These are large and costly programs. The basic price support and production adjustment programs cost $4.2 billion in 1969 in direct outlays.

Agricultural policies have not been successful in guaranteeing small farmers an income at the poverty level or above. Price supports and production controls have benefited those who have the largest output for sale and the largest amount of land to take out of production. Most Government payments are received by a minority of big farmers, but more than two-thirds of all American farmers have gross sales of less than $10,000 and require income from nonfarm sources. Many small farmers have been forced to leave their farms. The remaining poor farmers would be aided more by programs that help to move them out of farming into nonagricultural jobs through training and relocation programs, or through direct supplements to farm income through Federal Government assistance. The existing programs can do little to assist them because payments are related to potential or actual production rather than need for income.

Federal Income Tax Provisions

Estimates of the amount of income annually transferred from some tax filing households to other tax filing households through the individual income tax range from $35 billion to $50 billion. Given the need for a fixed amount of Federal revenue, if some persons pay lower taxes because of certain deductions or exemptions, then others will have to pay more, and there will be an implicit transfer of disposable income from the latter group to the former.

Under the current tax structure, income transfers are made, for example, from single persons to families, because of the lower rates for persons filing joint returns; from renters to homeowners, because of deductions allowed for mortgage in-

terest and property taxes; from wage earners to property owners, through capital gains provisions. Some portion of this redistribution is from the rich to the poor or from middle-income groups to the rich, but the bulk of the transfers occur among people in similar income categories.

Generally, tax transfers have not been adopted to change the income distribution but rather to serve as incentives for certain actions considered to be in the public interest. Thus, the deduction of mortgage interest and property taxes on owner-occupied dwellings was intended to encourage home ownership.

A number of exemptions and deductions were designed to support the disposable incomes of individuals. Tax relief is offered through double exemptions for age and blindness, exclusion of OASDI and certain other income from taxation, and tax credits for "retirement income" as defined in the Tax Code. However, only a small portion of the tax reductions resulting from these provisions accrue to the poor. While a few of the poor receive modest additions to their disposable income, the bulk of the additional disposable income goes to those already well-off.

Further increases in deductions and exemptions, changes in the rate schedule, or tax forgiveness can offer only limited assistance to the poor. Further changes in taxation do not help the most needy—for they already have almost no taxable income and pay almost no Federal income taxes. Thus, further changes in exemptions may only benefit the nonpoor and thereby lower the total revenue available to the Federal Government.

Consequently, a direct income support program, based on need, may be more efficient in meeting the income needs of the poor because it would allow greater selectivity in channeling money—in particular, it could include those who pay no taxes.

V
Programs That Provide Income-in-Kind

Any review of existing income maintenance programs must consider Federal programs which provide income in the form of goods and services to low-income individuals and families. These income-in-kind programs, like cash income programs, increase a household's command over goods and services, although they restrict the household's choices over which goods and services it will consume.

This chapter will review briefly income-in-kind programs aimed specifically at poor and lower-income families. It is sometimes proposed that if individuals were assured adequate incomes through one means or another, these programs would be unnecessary. This argument must be considered before discussing specific programs.

Reasons For In-Kind Programs

Three general factors are often cited as reasons for providing income-in-kind: faulty social choice, inadequate market supply, and faulty consumer preferences.

Faulty Social Choice: Some goods and services critical to the general welfare would not be universally available if production were left to individuals acting alone. There are many goods and services which will benefit the entire population, such as education, basic social and health services, roads, parks, and playgrounds, but which are indivisible in the sense that their benefits cannot be restricted to those who are willing to pay for them; so the Government must provide these services and allocate costs fairly to all beneficiaries. Many goods and services have social benefits not reflected fully by their profit potential, so they must be provided by the non-profit-oriented Government. We will not be discussing programs which supply these outputs in this chapter, although poor households do benefit from them.

Inadequate Market Supply: In some cases, the private market mechanism cannot provide sufficient quantities of goods and services with the necessary speed or at a low enough cost, so the Government may attempt to bypass the

market and alter the supply of a particular good or service.

Even if every family suddenly had a moderate income, they might not be able to purchase adequate housing, medical care, or other goods and services, because the market could not respond immediately to their new demands. Because of necessary delays in expanding output, the increased money demand of the poor resulting from transfers would only bid up the prices of some goods, leaving the poor no better off than before.

Government activities affecting the income of individuals and the general level of aggregate demand must be accompanied, on the supply side, by in-kind programs and other efforts to keep the supply of certain essential goods and services in harmony with the level of demand.

Faulty Consumer Preferences: It is sometimes asserted that some people do not know what is good for them, and must receive goods and services in-kind rather than the equivalent cash income to insure that they consume what they need. Such programs as Public Housing, Food Stamps, and mandatory social services for Public Assistance recipients permit local authorities to restrict the choices and to impose external standards on recipients of aid.

Housing Programs

Housing Status of the Poor

Federal housing programs were created out of the recognition that many Americans live in inferior housing and that sufficient decent housing is not available on the market at prices within the reach of everyone. Thus, the National Housing Act of 1949 called for the "realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family." Yet 20 years later, only one-half of families with incomes below $2,800 lived in standard housing, many under crowded conditions.

A low-income family cannot be expected to allocate more than 20 to 25 percent of its income to housing if it is to meet its other basic needs. The direct cost of adequate housing in urban areas for a family of four typically exceeds $1,200 a year. So, if less than 25 percent of the family's income is to be used for housing, an annual after-tax income of over $5,000 is required in order to be able to afford adequate housing.

The President's Committee on Urban Housing estimated that about 7.8 million American families—about one out of eight—cannot afford to pay the market price for standard housing. About half of these families have incomes below $3,000 a year. Over the next decade, the Committee predicted that 7.5 million families will remain unable to afford standard housing.[1]

Even if the income of poor families were raised, the quality of housing in which most of the poor live would not be altered immediately. Because of the slow pace at which the supply of housing can be increased, the primary result of an increase in the demand for adequate housing would be an increase in the level of rents. Consequently, even with income transfers to the poor, some form of in-kind housing programs would remain necessary to increase the supply of low-cost housing and to subsidize the cost of renting existing housing units. The American housing supply generally has been improved from the top down; better housing is made available to higher income groups and their cast-off housing is taken over by lower income groups. Only if the Government moves to increase the overall supply of housing can we hasten this trickle-down process and help the poor move into adequate housing.

Existing Government housing programs vary considerably. While few of them have a direct bearing on the economic conditions of the poor, several current programs have a large impact on the near-poor. Current programs have fostered construction and leasing of housing units to low-income tenants at subsidized rates, loan guarantees for middle-income groups, and urban renewal projects which often have decreased the

[1] *A Decent Home,* Report of the President's Committee on Urban Housing (Washington, D.C., U.S. Government Printing Office, 1968).

supply of housing units available to low-income families.

Public Housing

Public Housing began in the United States more than 30 years ago. Today, more than 700,000 units of Public Housing provide shelter for over 2.5 million persons, dwarfing all other programs which subsidize housing for the poor. Federal expenditures for this program and the associated Leased Housing program were $290 million in 1968.

The responsibility for development, ownership, and management of these subsidized rental projects is in the hands of independent local Housing Authorities. The net Federal subsidy allocated to Public Housing averaged approximately $40 per month per family in 1968, but Federal assistance comes in the form of financial backing for Housing Authorities and is not given directly to individual tenants.

In 1968 the median income of all families admitted to Public Housing was about $2,800. The median monthly rent for these units was about $54. One-third of the units were occupied by elderly persons.

Public Housing was not intended to benefit primarily those regarded as dependents of the society, and Housing Authorities long have limited the number of Public Assistance recipients they would admit. Because of a commitment to make each project pay its own way, Public Housing Authorities require that families pay at least 30 percent of the cost of their units. In most instances, families also are required to pay 25 percent of their net income in rent. In urban areas, rising costs of maintenance and capital replacement have created pressure on local officials to admit even more nonpoor tenants to bring rent payments closer to costs. The same administrative discretion which has allowed exclusion of the very poor also enables local administrators to keep out "problem families"—unwed mothers, delinquent children, etc. Management need not give reasons for eviction or for failure to renew the month-to-month leases.

In most Public Housing projects, when family income exceeds some specified level, the family no longer qualifies for Public Housing and must move out. While this practice has been eased in some areas, it still removes from Public Housing precisely the sorts of upwardly mobile people who might provide leadership to others in the project. This heightens social instability in the projects. Moreover, the increases in rent which such persons must pay in private, nonsubsidized housing often more than equal their increases in income.

Public Housing projects not only lack much economic mixture among their tenants; there is also a lack of racial mixture. Many of the major Public Housing projects constructed in recent years have helped to define and reinforce the patterns of racial segregation which have been imposed on American cities. Because Housing Authorities generally are confined to the city limits, Public Housing has not followed the movement of white people and of jobs out of the center city. One-half of all Public Housing units are occupied by black tenants, and in many cities Public Housing has become equated with black housing.

Leased Housing

Under the Leased Housing program, enacted in 1965, the local Housing Authority may enter into contracts with private owners, negotiate a rent, and guarantee its payment. A low-income family qualifying for this program then moves into the housing unit and pays a share of the rent to the Authority, which is responsible to the landlord for the entire rent.

Because it operates within the existing housing market, the Leased Housing program can help promote economic integration lacking in conventional Public Housing. In addition to the subsidized rent, the individual family benefits from the wider variety of housing units and locations made available to them. Units available under the program are not part of large low-income housing projects and tenants can be

given housing more suitable to their individual preferences.

Unlike conventional Public Housing, the Leased Housing program can move quickly. The program, of course, cannot be effective in areas with few vacancies. In 1968, leases for 62,000 units were approved; the number of new Public Housing units produced in each of the previous six years was less than half this number. A cumulative total of 92,000 units had been leased by 1969 at a Federal cost of $98 million for that year. The average subsidy per unit is thus close to $90 per month although vacancies reduced this amount by $10 per recipient since authorities continue to pay rent of unused units.

Rent Supplements

The Rent Supplement program was established in 1965 to provide incentives for private groups, both profit and nonprofit, to build low-rent housing projects. The owners may rent units in the project to whomever they choose, but many of the residents will have their rent payments subsidized by the Federal Government. Those whose income falls within the limits of eligibility may pay 25 percent of their income for rent, with the Federal Government paying the remainder of their rent directly to the landlord. It is estimated that the average real subsidy per unit per month is about $80, compared to about $70 on new units of Public Housing. As the tenant's income rises, his rent supplement is reduced. But unlike Public Housing, no family is required to leave a rent-supplemented project because of rising income. Economic integration is also sought by placing a limit on the proportion of tenants in the project who can receive rent supplements.

Limits on maximum rents and construction costs have made the program generally unfeasible in major cities outside of the South and Southwest. While the projects were supposed to be economically integrated, builders and housing administrators now assume that 90 percent of the tenants will receive supplements. Many of the poor are excluded because their incomes are too low for eligibility and they cannot even afford to pay the minimum rent.

Twelve hundred units were begun in 1967, while 12,000 were to be built in 1968. A total of approximately 135,000 persons will be housed in 45,000 units by the end of 1970 at an annual Federal cost of about $28 million. Together with Public Housing, Rent Supplements serve 10 to 14 percent of the potentially eligible population.

Other Programs

Other programs exist to help families secure adequate housing. Most of the other programs assist families with incomes above the Public Housing project cut-off level. A program administered jointly by the Department of Housing and Urban Development and the Bureau of Indian Affairs assists Indians both on and off the reservation in obtaining adequate housing.

While many of HUD's programs are directed to urban areas, nearly half of the substandard housing in this country is in rural areas. The Housing Act of 1949 authorized loans to families in rural areas to build, improve, or buy homes and farm service buildings. The Act provided for subsidies to families with insufficient income to repay a loan, but the program was not adequate to provide for even a fraction of the needs of rural people for adequate housing. The Housing Act of 1968 expanded this program to provide for mutual-help and self-help housing.

The Farmers Home Administration has increased its efforts in developing low-income housing in rural areas. In 1970, 120,000 units of such housing should be started or acquired, tripling the 1968 program. Through 1968, it is estimated that a total of 400,000 low-income rural residents have benefited directly from this program.

The Housing Act of 1968 also provides for assistance to low-income families in acquiring new homes built by private home builders. The Federal Government pays part of the home buyer's FHA-insured market rate mortgage payments on approved housing. The maximum Government

subsidy reduces the home buyer's payment to that which he would owe if his purchase had been financed with the mortgage bearing an interest of one percent. With interest rates recently rising to well over eight percent, this program can subsidize close to six-tenths of a mortgage on low-income housing. All families must allocate at least 20 percent of their income to paying off the mortgage. As family income rises, the mortgage payments increase and the Federal subsidy is reduced gradually. Because the maximum Federal subsidy is limited, the program does not help families with very low incomes. However, it provides assistance to those with incomes between $3,000 and $7,000 a year.

Section 236 of the 1968 Housing Act provides subsidies on rental housing. The program, like the Rent Supplement program, seeks to encourage private developers to build new low-income rental housing. The crucial difference between the two programs is that in Section 236 the maximum Federal payment on a unit lowers the rent to that level which would be achieved if the project had been financed with a one percent mortgage. Thus the maximum subsidy effected under this program is less than that which can be obtained under the Rent Supplement program. Such a program will serve primarily families with incomes between $4,000 and $6,500 per year. In very high cost areas, tenant incomes must be higher unless families choose to allocate more than 25 percent of their income to housing.

Urban Renewal

Finally, the contribution of urban renewal to the spectrum of housing programs must be noted. Originally, urban renewal destroyed more housing than it built. In the period from 1950 to 1963, about twice as many housing units in urban renewal sites were destroyed as were built. Only eight percent of the replacements were in Public Housing.[2]

Under revised provisions of the program, urban renewal projects are beginning to include rehabilitation of older substandard homes. Two sections of the Housing Act of 1965 allow loans or outright grants for rehabilitation to low-income homeowners in urban renewal areas. A third section encourages nonprofit organizations to acquire and rehabilitate single family units through long-term, low-cost financing and then sell them to families whose incomes are below Public Housing income limits.

Summary and Evaluation

In the past few years, emphasis in Federal housing programs has moved from Public Housing, mortgage insurance, and urban renewal to innovative new programs. But neither the old nor the new programs have ever been funded at levels which would enable them to meet their objectives. In Public Housing, for example, the waiting list for the existing 700,000 units is estimated at between 500,000 and 750,000 families, and the total number of potentially eligible tenants exceeds seven million.

The most successful housing programs are those which allow a maximum of free choice in the location and type of housing which they provide. The programs offering low-interest, long-term FHA loans to veterans and to middle and moderate-income families have enabled many Americans to build or buy a home through existing market mechanisms and financing channels. However, these programs have benefited the poor only indirectly; while the Federal Government has helped the relatively affluent obtain better housing, the poor have moved into the housing they have abandoned.

The dominant Federal housing program, Public Housing, has not been judged a success by either its tenants or the general public. Because most Public Housing has been built and operated by local Housing Authorities, there have been many delays and tendencies to divert the programs from their original intentions. Many project administrators have developed tenant selection policies which exclude the poor and many others

[2] Jerome Rothenberg, *An Economic Evaluation of Urban Renewal* (Washington, D.C.: Brookings Institution, 1968), p. 148.

by criteria of questionable merit. In Public Housing, as in Public Assistance, the Federal Government has not been able to enforce neutral administration of the program.

Most of the projects have been built in inner city areas. Thus, at a time when increasing numbers of job opportunities are in the suburbs, the poor find that the only housing they can afford, be it public or private, generally is located in the inner-city.

In Public Housing and in the Rent Supplement program, less than two-thirds of the beneficiaries have annual incomes below $3,000, and the proportion is even lower in other programs. Subsidies to private organizations have not been sufficient to reduce housing costs and rents to a level benefiting many of the poor. Government housing projects have improved the housing of some people, but a basic financial capacity still is required in order to participate in many programs, in order to repay loans, no matter how low the interest rate, or to pay rent, no matter how much it might be reduced. And many Americans still lack this basic financial capacity.

TABLE A-5-1. Estimated Income Distributions of Families in Federally-Assisted Rental Housing, U.S., Fiscal 1968

Total Family Income	Percent of Families		
	Public Housing	Rent Supplements	221(d)(3) BMIR [a]
Under $1,000	7.0%	—%	.8%
1,000–1,499	11.0	5.0	.5
1,500–1,999	12.0	10.0	.5
2,000–2,499	12.0	15.0	1.2
2,500–2,999	12.0	20.0	2.0
3,000–3,499	10.0	20.0	3.0
3,500–3,999	8.0	15.0	5.0
4,000–4,499	7.0	10.0	7.0
4,500–4,999	6.0	5.0	10.0
5,000–5,499	4.0	—	11.0
5,500–5,999	3.0	—	13.0
6,000–6,499	2.0	—	12.0
6,500–6,999	2.0	—	10.0
7,000–7,499	1.0	—	9.0
7,500–7,999	.8	—	5.0
8,000–8,499	.6	—	4.0
8,500–8,999	.4	—	3.0
9,000–9,280	.2	—	1.1
Over $9,280	1.0	—	1.9
Total	100.0	100.0	100.0

[a] Below market interest rate.

Source: President's Committee on Urban Housing, *Technical Studies*, Volume 1 (Washington, D.C.: U.S. Government Printing Office, 1967), p. 161.

Health Programs

Increasingly, public funds are being used to pay for the health care costs of individuals. In 1965 Federal, State, and local governments spent $7.8 billion on health and medcal services compared with a projected $19 billion for 1970. In the same period private spending for health care will have increased from $28 billion to $35 billion. Primarily responsible for this shift in payment of health expenditures are two Federal programs, Medicare and Medicaid. These programs were developed to assist special population groups in purchasing health care.

Current Health Insurance Coverage of the Poor

Health care costs are usually unpredictable, and often are large in relation to income. The primary financing vehicle for most of the general population is insurance. Twenty-nine percent of personal expenditures for physicians' services in 1967 and 34 percent of hospital costs were paid for by insurance benefits.[3] Private health insurance covers nearly everyone in families with annual incomes of $6,000, but it covers fewer than half of those in families with less income.[4] The health insurance purchased by low-income people is usually of an inferior nongroup type which covers minor ailments, but not major catastrophes, and is expensive relative to policies carried by higher-income individuals. Since a considerable amount of health insurance is tied to employment, the unemployed are particular victims of the lack of adequate coverage.

Recent data from the National Health Interview Survey indicate the extent to which low-in-

[3] Dorothy Rice and Barbara Cooper, "National Health Expenditures, 1950–67," *Social Security Bulletin*, January 1969, p. 13.

[4] U.S. Department of Health, Education, and Welfare, National Center for Health Statistics, *Vital and Health Statistics*, Series 10, No. 42, "Family Hospital and Surgical Insurance Coverage," 1964, Table 3.

come persons are excluded from coverage for hospital stays, and the incidence of large hospital expenses for their families relative to higher income groups. Table A–5–2 shows that five-sixths of the hospital costs incurred by members of families with incomes above $5,000 is paid for by either hospital insurance alone (37.5 percent) or a combination of insurance and personal expenditures (46.0 percent), while less than half of the expenditures of lower income families is accounted for by these sources (21 and 29 percent respectively). Yet the incidence of hospital costs exceeding $500 is almost as high for those individuals in families with less than $5,000 income as it is for those in families with more than $10,000 income (13 per 1,000 versus 15 per 1,000).[5]

TABLE A–5–2. Percent Distribution of Source of Payment for Short-stay Hospital Care, Population Under Age 65 by Family Income

Source of payment	Total population under age 65	$0–3,000	$3,000–5,000	$5,000 and over
All sources.......	100.0%	100.0%	100.0%	100.0%
Hospital Insurance (HI).	32.3	15.7	25.2	37.5
Personal (P).....	13.0	20.5	20.8	9.2
HI + P...........	40.6	22.2	34.3	46.0
Federal, State, local welfare...	8.1	34.4	10.8	2.8
Other............	6.1	7.2	8.9	4.5

Source: Preliminary Survey Results, National Health Interview Survey, July 1966–June 1967.

Health Status of the Poor

A strong correlation between poverty and ill health has been documented. Poor families have four times more disabling heart disease and six times more nervous disorders and mental illness than the population at large. The poor also have three times as many orthopedic ailments and eight times as many visual defects. Nearly one-half of the poor pregnant women in this country receive no prenatal care, and a child born to poor parents is twice as likely as the average newborn to die before his first birthday. Fifty percent of poor children are not immunized adequately, and 64 percent have never seen a dentist. Since poor health among children and teenagers reduces their educability, their future employability and productivity is also reduced, thus contributing to the cycle linking poverty, unemployment, and ill health. For this reason alone, aside from humanitarian grounds, the health and well-being of all of our citizens shoud be regarded as a vital National resource.

The major public programs developed in recent years have been aimed primarily at groups outside of the labor force—the aged and recipients of Public Assistance.

Medicare

The Medicare program, enacted in 1965, provides medical care benefits to those over age 65. These benefits are related to the cost of health services, not the income of the aged. The program has two components, Part A providing for Hospital Insurance and Part B for Medical Services. Virtually the entire aged population is enrolled in Part A, and 90 percent are enrolled in Part B, which is voluntary and costs enrollees $4 per month. Of the nearly 20 million aged covered by Part A, some seven million are either poor or near-poor. Coverage of the low-income aged is incomplete under Part B because of the cost. Preliminary studies indicate that the majority of the 1.25 million not covered by Part B have not enrolled because of an inability to pay the premium.

The cost of drugs is not covered by either component of the program, and there are deductibles which the aged must pay. Briefly, Part A provides:

- inpatient hospital services for up to 150 days during any period of illness, less one day for each day in excess of 90 received during any preceding illness paid for by the program;
- extended care services for up to 100 days after a hospital stay of at least three days;
- home health services for up to 100 visits after a hospital stay.

Part B provides for the payment of physicians and some other medical service fees, with the first $50 paid by the patient and 80 percent of the remainder paid by insurance.

[5] Based on unpublished survey results from the National Health Interview Survey, January–June 1966.

In fiscal year 1968, the Federal Government spent $3.7 billion on Part A benefits and $1.4 billion on Part B. Approximately one-third of Part A benefits went to the poor, and a high proportion to the near-poor.

Medical Assistance

The purpose of the Medical Assistance program is to aid States in providing medical care for Public Assistance recipients. Title XIX of the Social Security Act, enacted in 1965, established a single and separate Medical Assistance program to replace the varied provisions for meeting costs of medical care which existed under the State Public Assistance programs.

Under the current program those not eligible for Public Assistance may be eligible for Medical Assistance if they meet income tests that are less stringent than those required for cash aid. The income of the medically indigent, however, cannot exceed 133 percent of the income levels set for AFDC, which generally has the lowest support structure of the categorical Assistance programs. The determination of eligibility is faulty on several grounds. AFDC standards vary widely from State to State, and are very low in many States. And, incomes only slightly above the eligibility level disqualify individuals from all benefits. This can have the effect of creating a notch—where a small increase in income can lead to a large loss in benefits.

The Federal share of total expenditures for this program ranges among the States from 50 to 83 percent, in accordance with a formula specified in the Social Security Act. While the program provides for large redistributions from Federal to State sources, the option of implementing a program rests with the States, and the basic structure of the program also is determined by the States.

As of July 1969, 44 States had adopted Title XIX programs covering some 10 million persons. Approximately $4.6 billion was spent in this program in fiscal year 1969.

It is not known what percent of the total medical costs incurred by persons covered under Title XIX are borne by the program, nor is it known what percent of the medically indigent are covered by, or make use of, the various Medical Assistance programs. Moreover, the quality of service rendered under the program is unknown, since no controls are imposed on physicians and delivery of services is not monitored.

Other Health Care Programs

In addition to the large programs which finance the care of most of the elderly and some of the nonelderly poor, the Federal Government is involved in several other programs.

The largest of these programs assists veterans of the Armed Services. Through facilities of the Veterans Administration, direct services are provided for service-connected health problems. Where facilities permit, medically indigent veterans also can receive care for nonservice-connected problems through VA hospitals. In 1969 outlays for direct hospitial and medical services were $1.5 billion, approximately 60 percent of which was for nonservice-connected treatment.

The Office of Economic Opportunity spent $134 million in 1969 for health services, about half of which was used to develop Neighborhood Health Centers, which represented the first direct effort by a Federal agency to bring permanent health facilities to areas deprived of adequate health care resources.

Summary and Evaluation

The two largest Federal health care programs have had over three years of experience. This experience has been disappointing. The rapid increase in program costs has demonstrated the great need for health care for the poor and the aged. However, it has also demonstrated that merely providing funds cannot rapidly increase the supply of medical care or the productivity of the health care industry.

Existing Government programs have been unable to cope with the task of providing the poor with comprehensive health care. Because of deductibles, co-insurance, limitations of benefits,

and exclusion of out-of-hospital drug costs, Medicare pays only 40 percent of the health care costs of aged persons. Because of their reliance, in full or in part, on State and local in addition to Federal contributions, Medicaid and other welfare programs for the needy cover only a small proportion of low-income persons, and provide them with inadequate coverage.

In general, due to the present shortage, uneven distribution, inefficient use of manpower and facilities, and the lack of controls on the cost and quality of services, we do not have a health system that makes it possible for all of the nonpoor to obtain truly comprehensive coverage for home, office, and clinic care, for hospital and nursing services, or for suitable disease prevention. Consequently, no income maintenance program of any level alone could enable the poor to receive comprehensive service from the present health system.

Because of its size and design, Medicaid has revealed many problems which have been developing in the health care industry. Together with the companion Medicare program, close to $12 billion in *additional* public funds will have been pumped into the direct health care services sector in the five years since 1965. This amounts to an increase of 200 percent in public funds for civilian care, and it represents three-fourths of the increase in total health care expenditures. In 1965 expenditures for health resources were $39 billion. In 1970 they will be about $59 billion. An unknown portion of the Medicare expenditure represents a shift from private to public expenditure. Medicare has increased utilization of medical facilities by at least 10 percent, and perhaps as much as 15 percent. It has also shifted care to more elaborate procedures and to more costly places of care, such as hospitals and nursing homes.

Consequently these programs have actually worsened the plight of the low-income person who lacks coverage. While the programs have increased substantially the effective demand for medical services, a relatively fixed supply of these services limits satisfaction of this demand. The supply of health resources, while increasing, is doing so at a very slow pace. As a result, the programs have brought growing queues at medical facilities and rising prices. As physicians' fees and hospital costs increase, those who are without private insurance coverage or Government assistance find their degree of medical indigency growing ever more acute.

Food Programs

Nutrition and the Poor

The extent of poor health in the population due to poor nutrition is unknown and impossible to ascertain. It is known that the inadequate diet of many poor families increases their vulnerability to physical and mental debilitation. In addition, many persons are frequently hungry because their income is inadequate to buy sufficient quantities of food. In field investigations, witness after witness testified to his inability to purchase adequate food. The Commission received vivid descriptions of continually bleak, unappetizing, and inadequate meals.

The Department of Agriculture's 1965 Food Consumption Survey indicated that only 37 percent of the households with an annual income of less than $3,000 had diets that met National Research Council recommended nutritional standards compared to 50 percent of the households at all income levels. Of the households with incomes under $3,000, 36 percent had diets which provided less than two-thirds of the NRC standards for one or more nutrients. The percentage of households with inadequate diets rises markedly as income falls from $3,000 a year to less than $1,000.

Existing Programs

The major programs that attempt to alleviate household income inadequacy by subsidizing food consumption are the Commodity Distribution program and the Food Stamp program. The former program provides for the direct distribution of commodities while the latter sells stamps at a discount to low-income families, who use the

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stamps to purchase food at their grocery stores. The value of surplus food distributed to needy families in 1968 was $124 million; there are also considerable administrative costs for transportation, storage, and distribution. Federal expenditures in 1969 were about $280 million for the Food Stamp program.

Budgets of some low-income households are augmented in more than 80 percent of the counties of the United States by one of these programs, although no county may have both. Approximately 6.7 million persons benefit from the programs, or about one-fourth of the poor. Both programs give low-income households an opportunity to supplement their diet, but neither program is designed to assure a participating household an adequate diet.

These programs are available to all persons meeting local Public Assistance income standards, regardless of whether or not they are actually eligible for assistance. Employment expenses, heavy medical costs, and excessive rent expenses are deductible from gross income in determining eligibility. The use of the Public Assistance income standards results in the exclusion of a sizeable portion of the poor families from the food programs. Moreover, because these programs are administered by local welfare departments, they are subject to the same arbitrary rulings noted in the evaluation of Public Assistance programs.

Commodity Distribution Program

The Commodity Distribution program distributes a bundle of surplus farm products, or items using surplus farm products, to all eligible participants. Currently the total bundle of items available from the Department of Agriculture would provide a nearly balanced diet to recipients, but few counties distribute all of the available commodities because of either the expense of doing so or the lack of demand. The items available include: flour, canned meat, peanut butter, rice, fruit juice, canned vegetables, nonfat dry milk, evaporated milk, lard, cereal, corn syrup, corn meal, cheese, butter/margarine, scrambled eggs, dehydrated potatoes, dry beans, canned meat or poultry, prunes, corn grits, dried peas, butter, and raisins.

Lack of appropriate storage and transportation facilities prevents the program from handling many perishable items such as fresh fruits and vegetables. The surplus commodities distributed are not necessarily the ones which families would choose if they had equivalent amounts of cash and the freedom to choose the composition of their diet supplement. The fact that some of the items may not satisfy recipients' tastes or are difficult to prepare means that bundles often are not utilized fully.

This program requires the establishment of a distribution system separate from regular food markets in order to restrict free commodities to those who are eligible to receive them. Such a distribution system is expensive for States and local communities to maintain, and is often inconvenient to the program participants. They may have to travel long distances to the limited number of distribution points in their county in order to collect their commodities which are bulky and heavy.

In short, neither the commodities offered nor the way they are distributed is consistent with the consumer free choice objectives that are an important part of our economic system.

Food Stamps

The Food Stamp program allows for the sale of stamps at a price which depends upon family income and size. These stamps have a face value in excess of the price charged for them. Poorer families pay less for stamps and receive a higher percentage discount on food.

Table A–5–3 shows a sample of the household purchase requirement schedule.

A household must spend a significant amount of its cash income on Food Stamps in order to receive the bonus. Poor households frequently do not participate in the Food Stamp program because: (1) a fixed amount of their own money must be spent on stamps to participate in the pro-

gram, and this amount often exceeds what they normally would spend for food; (2) it often is difficult for the household to accumulate the lump sum needed to buy stamps on the limited occasions each month when they are sold; (3) when income increases, the additional contributions required are unrealistically high in terms of normal expenditure patterns for low-income households; (4) households without income cannot participate, since the program requires a minimum purchase.

The Food Stamp program is theoretically very efficient in improving the diet of poor families. In practice, this full potential is not realized: The program places a limitation on the choice between food and nonfood items, thereby discouraging families with many unsatisfied nonfood needs from participating. This helps explain the mediocre participation rates of the Food Stamp program.

TABLE A-5-3 Abstract of Purchase Requirement Schedule of Food Stamp Program Showing Purchase Price and Bonus, February 1, 1969—Southern Schedule

Monthly net income	Purchase price	Bonus	Total
	Two-person household		
$0-19.99	$1	$29	$30
20-29.99	4	26	30
30-39.99	8	24	32
40-49.99	12	22	34
50-59.99	16	20	36
60-69.99	20	18	38
70-79.99	24	16	40
80-99.99	28	16	44
100-119.99	32	16	48
120-139.99	36	14	50
140 & over	40	12	52
	Five-person household [a]		
0-19.99	$2.50	$65.50	$68
40-49.99	16	56	72
80-89.99	38	44	82
120-129.99	54	40	94
160-179.99	64	34	98
200-219.99	72	30	102
240-259.99	80	28	108
280-299.99	88	28	116
330-359.99	96	28	124
420-449.99	108	28	136
480-509.99 [b]	116	28	144

[a] Complete schedule for 5-person household not shown.
[b] Add $4 to monthly purchase price for each $30 of monthly income (or portion thereof) over maximum income shown on schedule.

Source: U.S. Department of Agriculture, Marketing and Consumer Service.

Local Administrative Problems

In many areas effective coverage by the food programs is restricted because program administration is delegated to the local welfare department, which seldom has the capacity to reach all potentially eligible households. Potential participants often are dismayed by the amount of paper work and bureaucratic red tape involved in the Public Assistance procedures used to determine eligibility. In some cases the welfare department is not interested in expanding participation in the food programs to all who need diet improvement. Some local governments have chosen not to have programs; this may be because localities bear the full burden of administrative costs.

Overzealous application of the means tests, unnecessarily complex regulations, and creation of minor obstacles easily can discourage people whose traditional mistreatment by local authorities has made them unsure of their rights and reluctant to pursue them in the face of obvious official disapproval.

Child Feeding Programs

In addition to the family food distribution programs, the Department of Agriculture funds a set of child feeding programs. These are not specifically directed to poor children, but recent legislation has provided for giving children from low-income families special consideration in these programs. These programs include the School Lunch program, the Special Milk program, the School Breakfast program, and certain supplemental programs authorized by special temporary legislation. These programs are administered by State and local governments. These governments finance their participation in the programs by charging school children for meals eaten. States make very few contributions out of general revenues.

Estimates indicate that as many as three million school children from poor families do not receive a free or reduced-price meal at school, in spite of the fact that Federal costs alone for these programs run well over $300 million.

Much of the problem in getting free meals to poor school children is due to the attitudes of school administrators toward the "undeserving poor" as well as to the lack of physical facilities required to operate the food programs. Programs often are demeaning and stigmatize poor children. Some children refuse to participate in free lunch programs because they are required to sweep halls or do other clean-up work of which they are ashamed.

Recent legislation has permitted the Department of Agriculture to operate an emergency food program for special groups in the low-income population particularly vulnerable to malnutrition, such as preschool children and pregnant women.

Social Services

A variety of publicly supported social services are available to the poor. Some programs, such as care for the mentally defective and vocational rehabilitation for the handicapped, help shoulder the financial burden of care and training so that it does not impoverish the families of stricken individuals. Such programs also may seek to enhance the employment potential of the handicapped persons themselves. Other programs, such as those providing for neighborhood service centers, attempt to make services already available at the local level more accessible and well-known to the poor. Another group of programs provide services, such as legal services, which the poor could not afford to buy.

The major link between income maintenance and social services, however, exists in the Public Assistance program where services of one sort or another generally are tied to the receipt of income. It is often assumed that more and better services would reduce the need for Public Assistance—particularly the need for Aid to Families with Dependent Children. The following section will examine that assumption in light of past experience.

Services Provided Under Public Assistance

Public Assistance administration was infused with social work theories and personnel from its inception. The case-by-case approach to financial assistance was designed to allow for individualized attention to the problems of Assistance recipients. Implicit in this approach is the assumption that recipients suffer from poor social adjustment as well as lack of income and therefore require guidance by caseworkers in welfare departments.

The service strategy was reinforced by the 1962 Amendments to the Social Security Act which offered financial incentives to States for providing services in connection with Public Assistance programs. The arguments put forward in defense of the Amendments explicitly stated that an increase in funds for services ultimately would save money by helping people get off of welfare. The services to be offered under the Amendments were not specified but only suggested by broad categories such as "maintaining home." The greatest emphasis was on "rehabilitating" AFDC families through enhancing their employment potential.

The 1962 amendments allowed welfare agencies which meet certain Federal caseload standards to be reimbursed initially for 75 percent and now for 85 percent of the salaries and expenses of social workers performing the new services. This strong financial incentive accounts for much of the increase in the number of social workers employed by these agencies. The number rose from 41,000 in 1960 to 144,000 in 1968. Because there were not enough trained social workers to fill these new positions, many recent college graduates with no professional training have been hired and now are offering social work services.

Evaluation of Public Assistance Services

No data are available to show what services are being provided under Public Assistance and how effective they have been. In the quarter ending March 31, 1968, three million children on AFDC were reported to have been in families receiving social services, including casework, group work, homemaker services, and counseling.

In fiscal year 1968, the cost of services in Public Assistance was estimated at $770 million, 61 percent of which was financed with Federal funds. However, it is not clear whether useful services in fact are being provided. The general apparatus for accounting and evaluation in the administration of social services is so poorly developed that adequate cost-benefit analyses will not be forthcoming in the near future.

Type of Service Provided

The records of most welfare agencies merely list the number of cases receiving services under such broad categories as "maintaining family life and improving functioning," so comprehensive analysis of services is impossible. Many reported services actually may be verbal suggestions or admonitions delivered during eligibility determinations or fact verifications in the course of infrequent visits with clients. If a social worker discusses a child's progress in school with an AFDC mother, it may be recorded under "services related to education"; if a case worker drives a mother to a prenatal clinic, records may indicate delivery of "services related to health care." Limited observations lead to the conclusion that the Federal service money is, in many cases, a subsidy for program administration. The categories of services are defined so loosely that except for the actual computation and issuance of money payments, almost any activity performed by a welfare agency can be considered a service.

A survey of AFDC recipients in Wisconsin attempted to determine whether social services were achieving the diffuse goals established by the 1962 Amendments. This study found a "very low level of social service activity."

> For the vast majority of AFDC families, social service means a caseworker visit a little more than once every three months for a little more than 30 minutes per visit, with an occasional client's call to her caseworker. Qualitatively, the dominant characteristic of the service is one of minimum intervention. Three types of social service activities can be distinguished: (a) a provision for tangible, specific things that clients want; (b) general counseling, advice, and guidance; and (c) specific advice or guidance disapproving or approving of specific client behavior.
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> But aside from health services (which were cost-free to the agency), caseworkers tended to avoid areas which might lead to specific requests that would cost the agencies or would be hard to accomplish. This finding parallels the findings in our study of the administration of AFDC budgets, through which we discovered that very few clients made more than occasional requests for money grants to meet unusual needs. Either they were not advised about the availability of the grants or were discouraged from making requests. In sum, with the exception of health, the caseworkers had very little of a tangible, specific nature to offer clients.[6]

This finding for Wisconsin is consistent with observations in other parts of the country.

Assessment of Services by Recipients and Social Workers

The nature and effectiveness of social services has been studied by the California State Legislature.[7] In general, the study found little or no positive results from social services. This study's major findings will be quoted at some length because of the paucity of other data on the subject.

> Social worker-recipient pairs are highly transient. Social workers had worked with an individual recipient, on the average, for only eight months. In fact, during the two month period of this study, nearly one-third of the pairs were broken by either the social worker or the recipient moving, transferring, etc.
>
> Social workers saw recipients, on the average,

[6] Joel F. Handler and Ellen Jane Hollingsworth, "The Administration of Social Services in AFDC: The Views of Welfare Recipients" (University of Wisconsin, Institute for Research on Poverty, April 1969), p. 40.

[7] State of California, Assembly Committee on Social Welfare, *California Welfare: A Legislative Proposal for Reform,* February 1969.

once every other month. (One-half of the recipients were actually seen only twice in six months.) Two-thirds of the workers stated they spent more than 60 percent of their time determining eligibility—not in giving social services.

In only 15 percent of the cases did the recipients and social workers agree that help had been provided.

Most recipients viewed their primary problem as a shortage of money. Seventy-eight percent stated they did not have money enough to get through each month. Recipients viewed non-financial services as irrelevant.

There was little relationship between the recipient's problem and the type of service given, i.e., counseling was often the only service given for bad housing, unemployment and illness.

Only 17 percent of the recipients stated they would go voluntarily to a social worker for "help." Many indicated they would not use the services of a worker from public welfare due to a lack of trust and a feeling of invasion of privacy.

The California study concluded that "there is a tendency to offer social services, especially counseling, in a well-meaning but fruitless effort to compensate for inadequate aid grants." [8]

Financial deprivation was found to be a great obstacle to overcoming nonfinancial problems of welfare recipients. Many issues that were dealt with as social problems, such as truancy because of lack of proper clothing, and behavioral problems due to inadequate diet, could have been solved by money alone.

It has been argued that experience since the 1962 Amendments is not a true test of the efficacy of social services since high caseloads and time-consuming paperwork prevent caseworkers from delivering concentrated services. But a study in Chemung County, New York, found that a group of 50 families on welfare which received intensive casework carried out by persons with masters' degrees in social work experienced no more development in social adjustment than a control group which received no such services.[9]

Effect on Welfare Rolls

The broadening of social services has not led to a reduction in welfare. In fact, some of the largest increases in welfare rolls have occurred since 1962, despite consistent economic gains for the general population. This suggests that the appropriate roles of services and cash income maintenance have been confused. There is no evidence that services—particularly the counseling services generally provided by welfare departments—are effective in the absence of basic income. It has been suggested, moreover, that the compulsory nature of social services may reduce the effectiveness of those services, because clients resist being labeled social problems and are unable to develop rapport with a caseworker with whom they also must argue over money.

Imposition of Services and Free Choice

There is a widespread dissatisfaction with current social service arrangements among both recipients and social workers. There is a growing belief that social services should be separated from the provision of income, and that such services should be optional and part of a system of social services available to the general public.

If the services currently tied to assistance are desirable and have positive benefits over the long run, then they should be developed independently and on justifications other than those associated with receipt of cash transfer incomes. Moreover, services should be made available to all groups of the poor, rather than just those currently receiving Public Assistance. Such an arrangement would permit recipients of cash transfers to choose those social services they find useful, since the California study noted that unless recipients defined a problem as real, social services were ineffective.

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[8] *Ibid.*, p. 53.

[9] Gordon Brown, ed., *The Multi-Problem Dilemma* (Metuchen, New Jersey: Scarecrow Press, 1968).

Services and the Allocation of Resources

In attempting to choose between providing the poor with increments of service or income, we find that insufficient data exist to guide a definitive choice. However, we do know that the incidence of various social problems decreases as income increases. And no evidence suggests that current social services are effective or would be effective on an expanded basis without increased incomes.

Conclusions on In-kind Programs

It has been common practice in this country to have the nonpoor decide what the poor need, and to provide them with some of these things rather than with money. This policy has been based on the belief that dependency and poverty spring from faulty values, laziness, apathy, and the like, and that the treatment of poor and dependent families should include investigation, rehabilitation, and guidance. Yet this view does not stand up in the face of evidence on the poor.

Given the extremely low income of many of the witnesses who appeared before the Commission, mere survival represented an accomplishment. The poor often displayed incredible ingenuity in food preparation, for example, in providing variety and balance in their diet despite severe limitations on their purchases. Similarly, most recipients seemed to understand basic health requirements. Ingenuity, however, could not compensate for the lack of cash to pay the rent, or to buy the components of a truly adequate diet, or to purchase medical services.

Some low income persons undoubtedly need nutritional, health, and homemaking education, as do people at nearly all income levels. The most pressing need, however, is for money. Many persons are too poor even to participate in current in-kind programs. Poor families and individuals must have a minimum income to live in Public Housing or to participate in low-cost housing as well as other housing loan and subsidy programs. Similarly, many persons cannot afford to buy Food Stamps. Such programs do not correspond to the day-to-day way of life the very poor are forced to live.

The encroachments on individual choice wrought by many of our current in-kind programs contribute to their ineffectiveness. Surplus food is thrown away because the family does not like it; an eligible family does not buy Food Stamps because it has to give up too many nonfood purchases to do so; sick people do not use a health facility because it is unpleasant or too far away. Thus, resources may actually be wasted. The market system provides for protection against wasting resources. If services are ineffective, or goods are inferior, purchases can be expected to cease, as individuals spend their limited funds on other goods and services. Where goods and services are provided free or are subsidized by bureaucratic organizations, this automatic discipline is lost.

In-kind transfer programs are preferable to direct cash supplements only where individual efforts cannot achieve the desired goal effectively and efficiently through use of the marketplace, and when the demand for goods and services at reasonable cost exceeds the capacity of the market to supply them.

Appendix B
Alternative Programs Considered

Recognition of the problems created by the absence of an income floor program has prompted many program proposals in recent years. These proposals have in common some basic objectives: more uniform coverage of the poor, greater objectivity of operation, higher income for the poor, and preservation of work incentives. Some are income-tested; some are not. Some are connected with employment and others are not. The Commission has reviewed the proposals which have appeared prominently in recent public discussion. This evaluation has led us to prefer a universal, income-tested program that provides cash supplements as recommended in the Report. This Appendix reviews other programs, and reasons for finding them less satisfactory.

Program Types

Most income maintenance proposals can be grouped under one of the three major program types. There are employment-related plans that are aimed at increasing incomes through the provision of training; direct employment; and/or wage subsidies. Some plans would redistribute *wealth* on a per capita basis. The majority of plans, however, are for one form of income transfer or another. Such plans as welfare reform, negative income taxes, and children's allowances would increase personal incomes directly through cash transfers. Proposals of these types are considered more fully below.

Employment-Related Programs

A number of widely discussed antipoverty proposals would operate through labor markets. Two of the most important of these are "government as the employer of last resort" (or guaranteed employment) and wage subsidy proposals. Despite the popularity of such plans, there is very little hard knowledge about how they might operate, the number of people that would be affected, the wages that would be paid, and how much they might cost. If "wage subsidies" and "guaranteed employment" are to be more than empty phrases, these and other difficult questions must be answered.

Briefly, a wage subsidy is a means for achieving one or both of the following two ends: first, insuring that low-wage employees receive a more adequate wage, and second, inducing the employment of unemployed labor. A subsidy can fill all or part of the gap between the workers' value on the open labor market and a "target wage." The wage subsidy may be paid directly to the worker or may be paid to the employer who in turn pays his employees a wage exceeding their market value. By definition, the subsidy program can aid only those who are now working or who are potentially employable.

The income needs of nonemployable persons would have to be met by other programs. And, there may be residual income needs for employed persons with large families.

It is estimated that a wage subsidy set at 50 percent of the difference between a "target wage" of $2.00 and actual wage rates would make payments of $7 billion to nearly 15 million persons. Graduated taxes on subsidies in excess of family poverty lines would yield $1.3 billion, leaving an estimated net cost of $5.7 billion.

A potential problem inherent in any wage subsidy scheme is that employers could gain a portion of the subsidy. The less competitive labor markets are, the more likely it is that employers will be subsidized. Some lesser amount of benefits could also be "lost" to the working nonpoor—especially second earners in a family—who work in subsidized jobs.

While one purpose of a wage subsidy is to induce private sector employers to hire low productivity workers, guaranteed employment directly provides jobs in the public sector. Candidates for guaranteed employment will generally be those whose productivity is less than some "target wage." They either will be currently employed below that target wage, or unemployed. Ideally, work would consist of socially useful tasks which otherwise would not be performed, assuming there is an adequate supply of such tasks.

A program with the Federal Government serving as employer of last resort and offering employment at the minimum wage—subject to a number of eligibility restrictions including overall family income—would cover an estimated 9 million workers and cost an estimated $16 billion.

Coverage

Wage subsidies and guaranteed employment are both "work-conditioned" income maintenance programs; that is, only those who are able to work qualify for program benefits. There are at least three social reasons for supporting such programs:

- To offset the gross cost of cash income maintenance through the production of socially useful goods and services.
- To provide an educational experience which eventually makes it possible for participants to succeed in the private labor market.
- To provide participants and/or society with the psychological benefits that accrue when income is received, not as a gift, but as compensation in return for services.

The relative weights assigned to these three reasons have important implications in any determination of who should be included in program participation. In an actual program at least some of the conflicting values implicit in these objectives must be compromised. Operationally feasible eligibility criteria must also be formulated. If equal weight is given all three, universal coverage is implied, but this may be quite expensive. If the number of openings in the program must be rationed, a relatively high weighting of the first reason (minimum costs) suggests creaming the most productive of the low productivity labor force. A large weight on the second reason (work experience) implies an emphasis on those who could benefit most from training (e.g., the young or those who live in areas where nonsubsidized jobs can be procured). Highly weighting the third reason (psychological benefits) may imply that only family heads should be permitted to participate. Should secondary workers (e.g., the wives of working husbands) participate, family income may be brought well above the poverty line. If

secondary workers are denied eligibility, however, incentives for family splitting are created.

If participation in a wage subsidy or job program is limited in order to reduce costs, some sort of priority system will have to be used. Then, employment at a certain wage is no longer "guaranteed" to all who wish to work, but only to those falling within certain categories. Hence the term guaranteed employment or the guaranteed wage implied in a wage subsidy becomes something of a misnomer. But a categorical program offering income from jobs has the same defects as categorical programs which simply offer income.

Job Content

The relative weights assigned to the three main reasons for supporting work-conditioned income maintenance programs (listed in the last section) are important determinants of the content of the jobs assigned to individuals qualifying for a wage subsidy or a guaranteed job. The desire to minimize costs puts a high priority on the usefulness of the task performed, while maximizing psychological benefits does not, assuming it is activity rather than productivity from which the psychological benefits flow. However, the destructive impact on morale of useless make-work is well known, and this effect must be offset against potential productivity improvements from experience. Maximizing work experience puts the emphasis on the performance of jobs where valued skills are acquired, coupled perhaps with supportive services, e.g., vocational training, basic education, and special counseling.

The supply of productive and/or skill-acquiring types of jobs could drastically limit the size of the program. While it is true that there are many tasks in the public sphere that could improve the quality of public services, it is also true that these tasks are not limitless. Moreover, they also require expenditures in training, supervisory personnel, and supporting administrative structure. To be most effective and most useful, it is likely that the need for public services and a carefully designed strategy for service implementation should take precedence over the sheer development of jobs in these areas.

Job content can be controlled more or less directly in the case of guaranteed, publicly administered employment programs. This is not true under a wage subsidy program, where the participating private employer will determine job content, subject to whatever incentives or pressures the Government can apply (e.g., to insure emphasis on skill upgrading). But, many of the potential publicly administered jobs have been considerably over-romanticized. Many are not unlike other jobs at the lower end of the pay scale. Moreover, the opportunities for advancement typically are limited. Given, for example, the end of a teacher shortage in most areas, it is unrealistic to expect many teachers' aides to be trained to become teachers.

Wage Levels

The level of the wage paid the participants in a wage subsidy and/or guaranteed employment program is critical in determining both the program's effectiveness as an antipoverty device and its costs. In general, the higher the wage the more useful it would be as an antipoverty tool. Higher wages also would increase the attractiveness of the program to potential participants, and consequently some sort of priority system would be necessary to keep costs manageable.

Since a substantial number of workers presently are employed at or below the minimum wage, a large scale guaranteed employment program paying the minimum wage may necessitate considerable economic adjustment by low-wage industries if significant numbers of workers should transfer from private to guaranteed public employment. Under guaranteed employment there is not only the possibility of an initial large shift of workers from the private sector onto Government payrolls, but also of repeated shifts from one sector to the other as wage rate differentials and job opportunities fluctuate over the business cycle.

Wage Differentials

Assuming that the general wage level is given, establishing wage differentials for participants in work-conditioned income maintenance programs involves a very intricate set of problems. Wages under various programs may differ by geographic region, work assignment, individual merit, seniority, and, in the case of wages subsidies, by industry. Since a family's standard of living is a function of the number of people in the family, it also may be desirable to vary the wage on the basis of household size. The type and size of the wage differentials will affect program costs, the flow of individuals into, within, and out of the program, and possibly the wage structure of the nonsubsidized sector of the economy, to mention but a few of the possible implications.

Conclusion

Under either program the net costs would be economic equivalents of cash transfers of the same amount and distribution. Apart from whatever nonlabor income they may have, households are poor because their members are not employed, are underemployed, or are employed at wages too low relative to household size. Persons not employed are without labor income because, at the time, their contribution to an employer's income (a) does not justify payment of the prevailing wage; (b) is so low that, given that only 96 percent of the labor force is employed, they have been screened into the remaining 4 percent; or (c) is less than the value of their labor in the home. Or, they may be too old, young, or sick to work. Persons employed presumably are producing all that they can and are compensated for what they can do. The wage subsidy in private employment could leave many persons who are now unemployed out of work or could displace some of those presently employed. Total employment might not necessarily be raised, depending on the structure of the program and whether the program could be used by employers to subsidize their current workers. Government jobs might accomplish some worthwhile things, but Government output is not sold in the market. In the National Income and Product accounts, Government output is valued at cost. This convention should not delude us into believing that an increase in Government payroll automatically increases real output by a corresponding amount. Hence, the assertion that net labor costs (i.e., value of output minus wages) of these programs are economic equivalents of cash transfers.

In general, the Commission believes that wage subsidy and limited (i.e., non-"guaranteed") employment programs might be best used as complements to a basic income maintenance system should they prove feasible after further study. These programs can affect only employed or potentially employable persons. For those unable to work, the basic income would be the source of support. Moreover, an income supplement program still would be needed for large families to augment the wages from the subsidy or employment program. Thus such programs are not substitutes for the development of adequate income supplement plans.

Redistribution of Wealth

Serious proposals to redistribute wealth are few in number. Redistributing wealth could put income-producing property in the hands of all Americans, thereby reducing their dependence on both labor and transfers as a source of income. Given the absence of the potential for large increases in capital productivity, however, such schemes would not provide enough income to make possible adequate incomes to all without earnings and other Government transfers. Transferring income rather than wealth seems a more appropriate and direct means of affecting income.

Income Transfer

In principle, redistribution of income is not different from redistribution of wealth. The higher taxes to finance income transfers reduce the after-tax income and, hence, capital values of those who pay taxes, and grants create at least implicit

capital values for those receiving them. The capital value of grants is recognized by lenders who may consider an AFDC mother with a grant of a given size a better credit risk than another woman with no income or even with the same monthly earned income.

Modifications of Existing Programs

A number of proposals would modify existing welfare and social insurance programs. The reasons for rejecting this approach to alleviating poverty have been discussed in Appendix A. While these programs are worthy of improvement, a new program is needed as well.

New Programs

A variety of proposals to redistribute income through new programs—ranging from children's allowances to negative income tax plans—have also been made. Basically, two kinds of new programs have been presented: those, such as the plan recommended by this Commission that would supplement incomes and thus have a test of income need, and those such as children's allowances that would provide payments to persons in a selected category of the population regardless of the level of their other income. Neither type of program is a complete substitute for Public Assistance as envisaged in most published versions. Under most of the plans being discussed benefits are not high enough to cover the full needs of all current recipients. Moreover, they are not tailored individually to the special needs of particular families. Rather, they are viewed by proponents as partial substitutes for welfare, and as a way of giving aid to new groups now outside of the welfare system—primarily the working poor. Also, they are seen as a means of giving the Federal Government a greater role in a National system of income maintenance and a greater share in the cost.

Income Supplement Programs Related to Need

A frequent proposal is that a guaranteed annual income (GAI) be provided to all. In this program, the Government would pay the difference between a family's income and a socially defined level of minimum income. If the program is Federally-administered, the burden of administering cash payments is lifted from State and local welfare agencies except for providing emergency aid. The same results can be achieved, it should be noted, through a State and locally administered program by setting a uniform standard for payment levels, making men who work eligible for supplementation, and including couples and unrelated individuals. A guaranteed annual income can be regarded as a welfare reform program. This was essentially the proposal of the Advisory Council on Public Welfare in 1966.[1]

This type of plan, as generally proposed, is universal in coverage. If the guarantee level is set at the poverty line, all poverty is eliminated at once. However, a basic defect of the program is its failure to deal directly with the work incentive issue. The plan would make it unprofitable to work unless earnings exceed the guaranteed level. In the economist's terms, this program has an implicit 100 percent marginal tax rate on earnings—for every dollar earned, a dollar of guaranteed annual income is lost. In the construction of tax systems, we exhibit a great deal of concern lest our marginal tax rates be set so high as to discourage work efforts. The same concern must apply to programs for transferring income to the poor.

One can build on this type of plan, however, by adding a positive work incentive feature, such as reducing the payment by some fraction of a dollar for each dollar of earnings. This type of plan is frequently referred to as a negative income tax. Characteristic of all proposed plans of this type is that they guarantee a certain income level to families with no income, with the guarantee varying by family size.

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[1] *Having the Power . . . We Have the Duty*, Report of the Advisory Council on Public Welfare (Washington, D.C.: U.S. Government Printing Office, 1966).

As a family's income rises, the supplement from the Government decreases, but only by a fraction of the increase in income. That is, the plans allow the recipient to build upon that guarantee by adding earnings which are only partly taxed away. These plans provide a financial incentive to work. Those who work will always have more income than those who do not.

Most proposals of this nature are universal: that is, they cover the entire population. However, it is possible to have such a program only for certain groups in the population such as families with children. The Family Assistance Program proposed by the current administration is an example of this type of plan. This Commission's basic recommendation is for such a plan on a universal basis.

Programs Unrelated to Need

Programs can also be designed to provide income without a needs test of any sort. Such programs, known as demogrants, make payments based on factors such as age or sex. The many suggested plans in this category are known variously as social dividends, universal old-age grants, and children's allowances. The coverage, structure, and cost of these programs vary widely, depending on the specification. The most often proposed plan is a children's allowance.

Children's allowances usually are proposed as modest grants per child regardless of family income. The universality of payments to all children is alleged to remove any stigma of a means test from the program, and to demonstrate Government interest in the well-being of even nonpoor children.

While the strongest case for children's allowances is made on social grounds, the strongest arguments against their use as a major antipoverty program are set in benefit/cost terms. The problem is that to provide significant aid to poor children requires that a good deal of expenditures go to nonpoor children. Thus, in terms of gross payments, this program is much more expensive than an income-tested program per dollar of aid to the poor.

Payments of $50 monthly per child, for example, would entail a gross cost of over $41 billion. The financing of such a plan through such means as taxing the allowance and eliminating the income tax exemption for children would undermine some of the alleged advantages of the universal approach.

Yet these two measures would reduce the cost of a $50 per child monthly allowance only to $28 billion, so additional financing would be required. Even at this cost, many children and their families would remain poor, and programs based on need would be required, both for families with children and persons and families ineligible for children's allowances. Payments at a lower level—more realistic in terms of cost—would leave even more families with children in poverty.

Thus, because of the financing mechanisms in such programs, some of the advantages of children's allowances are much more apparent than real. We must face the fact that not everyone can benefit equally from a transfer program. However cleverly disguised, there must be net payors as well as net payees. When we recognize the need to recapture benefits from the affluent through the tax system to finance benefits for the poor, this type of program does not appear to be very different from an income-conditioned grant for families with children. This undermines the argument that children's allowances would garner greater social and political support than equivalent income-conditioned transfer programs.

The main technical difference between the children's allowance and the negative tax for families with children is that in negative tax programs the transfer of funds is done on the basis of a net transfer—an income deficiency is met. In the case of children's allowance or demogrant plans, two transactions are involved. Gross payments are made to all in the selected category. Those whose income is above a certain level, however, must pay a portion of the benefits back through the positive tax system to finance the program cost. The ultimate distribution of benefits and burdens of financing can be made identical by the financing mechanism. Thus, benefits in

one case depend on a prepayment means test, and in the other net benefits depend on a postpayment means test. The poor would be net beneficiaries in either case—receiving cash income in a simple way. Under children's allowance plans, the more affluent simultaneously receive an increase in gross income and an increase in taxes.

Children's allowances are essentially extensions of the categorical system of aid. While new beneficiaries are added, many persons in equal financial need are excluded. On the basis of our past experience with categorical programs, it seems clear that this incremental approach which carefully defines eligibility also equally defines exclusion. While many children are desperately in need of aid, there are too many other equally needy persons to justify proposing another categorical program.

If there were an adequate program providing a floor under income to all Americans, an argument could be made that children's allowances are a good way to redistribute income between families with children and others within similar income classes. But, children's allowances are a poor antipoverty weapon.

Appendix C
Design of an Income Supplement

The specific operational and definitional features of the income supplement system recommended can affect the program operation significantly. Different benefit structures, definitions of family units, and the like can change the program effect. This Appendix reviews alternative design features, and notes specific operational program features which seem desirable.

Level

The level of the allowance establishes the amount of income provided to families or persons with no other income. The Commission plan proposes an allowance of $750 for each of the first two adults in a family and $450 for additional members. As outlined in the Report, this provides an income of $2,400 per year to a family of four with no other income. While not adequate as a living standard, this program would be a major step towards an adequate income support system. Many of the poor would be removed from poverty, and many others would receive significant income increases.

Since benefits decline by only 50 cents for each dollar of other income, some benefits are provided to families of four with incomes up to $4,800. Tables C–1 and C–2 show the amounts of Federal payment that could be made and total family income by size of family and amount of other income.

Benefit Structure

Two types of benefit structures have been proposed for such programs: those which are related to the poverty line, and thereby take account of economies of scale in family living by having benefits per member decline as family size increases; and those which provide flat payments per family member. The former provide roughly equal standards of living to families of varying size; the latter provide equal money income per family member.

Proponents of structuring the benefit level in relation to the poverty line point out that there are economies of scale in family living, and that the first family member requires more to survive than succeeding family members. Proponents of flat grants point out that if a considerably larger amount is given to the first individual with considerably smaller amounts for succeeding individuals there are financial incentives for single adults to separate from the family to maximize total family transfers. Indeed, there are financial incentives for collusion and fraud, since by reporting income separately two adults in the same household can increase the total grant available to the family.

The Commission proposal represents a compromise between these possibilities. It provides flat benefits, but differentiates in benefit levels between adults and children. The first two adults in a family receive $750 each while succeeding family members receive $450 each. Table C–3 shows the basic allowance level for a program scaled to the poverty line that pays $2,400 to a family of four with no income, a program paying a flat $600 per family member, and the Commission program. These plans all provide $2,400 to a family of four but pay different amounts to families of different sizes.

The Commission proposal has the effect of not providing any financial gain for adult members of the family with no other income to separate from the family for the purpose of increasing the total transfer income received by the family. But the Commission plan roughly takes account of economies of scale for larger families. Thus it is superior to both of the pure alternatives. For families in which only one adult has earnings there still may be financial gain from separating. This

TABLE C–1. Annual Amount of Federal Payment by Household Size and Amount of Other Income, Proposed Program

Household size	Amount of other income [a] [in dollars]									
	0	500	1000	1500	2000	3000	4000	5000	6000	7000
1	750	500	250	0						
2 (1 parent, 1 child)	1200	950	700	450	200	0				
2 (couple)	1500	1250	1000	750	500	0				
3 (1 parent, 2 children)	1650	1400	1150	900	650	150	0			
3 (2 parents, 1 child)	1950	1700	1450	1200	950	450	0			
4 [b]	2400	2150	1900	1650	1400	900	400	0		
5 [b]	2850	2600	2350	2100	1850	1350	850	350	0	
6 [b]	3300	3050	2800	2550	2300	1800	1300	800	300	0
7 [b]	3750	3500	3250	3000	2750	2250	1750	1250	750	250

[a] Other income includes income from all sources other than income-tested Public Assistance and Veterans Pensions.
[b] Assumed to include two adults. One-adult families of the same size would receive $300 less.

TABLE C–2. Total Annual Income by Household Size and Amount of Other Income, Proposed Program

Household size	Amount of other income [a] [in dollars]									
	0	500	1000	1500	2000	3000	4000	5000	6000	7000
1	750	1000	1250	1500	2000	3000	4000	5000	6000	7000
2 (1 parent, 1 child)	1200	1450	1700	1950	2200	3000	4000	5000	6000	7000
2 (couple)	1500	1750	2000	2250	2500	3000	4000	5000	6000	7000
3 (1 parent, 2 children)	1650	1900	2150	2400	2650	3150	4000	5000	6000	7000
3 (2 parents, 1 child)	1950	2200	2450	2700	2950	3450	4000	5000	6000	7000
4 [b]	2400	2650	2900	3150	3400	3900	4400	5000	6000	7000
5 [b]	2850	3100	3350	3600	3850	4350	4850	5350	6000	7000
6 [b]	3300	3550	3800	4050	4300	4800	5300	5800	6300	7000
7 [b]	3750	4000	4250	4500	4750	5250	5750	6250	6750	7250

[a] Other income includes income from all sources other than income-tested Public Assistance and Veterans Pensions.
[b] Assumed to include two adults. One-adult families of the same size would receive $300 less.

potential gain is lower than under current programs however.

To avoid large payments to very large families, ceilings sometimes are proposed. Recent court rulings have cast doubt on the constitutionality of family maximums on payments in Public Assistance programs. Thus, it would seem undesirable to introduce such features in a new program. One could argue more justifiably on the grounds of economies of scale for reducing the benefit amount per family member for members beyond some number. The Commission has not made recommendations in this area, but presents some data for review. Table C–4 shows the costs and number of recipients of supplementation for the Commission plan, for a plan which pays no added benefits for the eighth or succeeding family members, and for a plan in which the eighth and succeeding members receive only $225 in basic allowance (half the amount added by the third through seventh members).

TABLE C–3. Effect of One Adult Separating on Total Transfer Income of Family Under Alternative Benefit Structures, Family with No Other Income

Family size	Benefits scaled to poverty index [a]	Flat grant per member [b]	Commission plan [c]
I. Family Intact, Total Household Income			
2	$1530	$1200	$1500
3	1870	1800	1950
4	2400	2400	2400
5	2830	3000	2850
6	3180	3600	3300
II. One Adult Separated: Income of Two Households			
2	$2360	$1200	$1500
3	2710	1800	1950
4	3050	2400	2400
5	3580	3000	2850
6	4010	3600	3300

[a] 68 percent of poverty index for nonfarm family. $1180 for single individual.
[b] $600 per person.
[c] $750 for first two adults, $450 for each additional member.

As discussed above, attempting to design allowances to provide equal living standards requires that the allowance per family member must decline for successive family members to reflect economies of scale in family living. In addition, the age of family members should be taken into account and allowances should be adjusted to reflect differences in the cost of living in different areas of the country. Making these latter features operational, however, would be very difficult. While it is clear that there are economies of scale in family living, the means of quantifying them are not nearly so obvious. Economies of scale are specific to particular consumption patterns, and consumption patterns vary with income, family size, and age composition. Age and sex adjustments in equivalent incomes are very difficult to quantify.

TABLE C–4. Estimated Net Cost [a] and Coverage of Commission Program and Two Variants, 1971

Cost and coverage	Commission plan	Limited to seven members	Reduced benefits for eighth and succeeding members
Net cost (billions)	$5.9	$5.2	$5.5
Number of households (millions)	10.5	10.3	10.4

[a] Net added cost to all levels of government.

An additional problem is that we do not now have the necessary data to adjust accurately for specific geographic differences in the cost of living. The Department of Labor recently completed extensive budget studies for comparable standards of living in urban areas. Using their lowest standard of living as a basis, we find that of the ten highest cost living areas, three are in the West, four in the North Central region, two in the Northeast, and one in the Southeast.[1] Available data indicate that simple and clear-cut regional patterns in living costs do not exist.

Aside from difficulties of developing adequate data sources for accurate measures of regional living cost differences, it is not clear that such variations are desirable. Factors that partially account for gross variations in living costs are regional differences in levels of living standards and income. This program is designed partially to reduce the extreme differences in these patterns

[1] U.S. Department of Labor, Bureau of Labor Statistics, Bulletin No. 1570–5, *Three Standards of Living for an Urban Family of Four, Spring 1967.*

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across the Country. Regional variations in payments would retard the economic integration of the Nation that might be induced by the recommended program.

Reduction for Other Income

Decisions regarding the appropriate level of the reduction rate of benefits for other income (the "tax rate") basically represent compromises between two opposing forces. Increasing the rate reduces the direct cost of the program and the number of beneficiaries. It reduces the net allowance received at all levels of other income and it reduces the level of income at which supplementation ceases. However, increasing the rate also increases the possibility that some people may be discouraged from working and either work less or withdraw from the labor force entirely. This, in turn, increases the indirect cost of the program. Little is known of the incentive effects of various rates, but the bulk of professional opinion holds that rates in excess of 50 percent could cause significant labor force withdrawal. Lower rates significantly increase costs by raising the level up to which earnings may be supplemented and, therefore, the number of beneficiaries.

Definition of Income

Since the purpose of the program is to supplement the income of the "poor," the definition of income used should be comprehensive. If special exclusions and exemptions are allowed the program could pay net benefits to quite affluent persons.

Gross Income

The most comprehensive economic definition of a household's income is its consumption plus its change in net worth. This would include all forms of money income, income-in-kind, and accrued capital gains. This definition would require an unreasonable amount of sophisticated bookkeeping on the part of the poor. It would also be very costly to administer. The definition of income recommended by the Commission is more comprehensive than the definition used for income taxation, but less comprehensive than the ideal definition. Specifically, we would include money receipts from work, ownership and transfers, wages and salaries, rents, interest, dividends, proprietorship returns, nonmeans-tested public transfers (i.e., OASDHI, Veterans Compensation, Workmen's Compensation, employee pensions, Unemployment Insurance benefits), and private transfers through gifts and bequests in excess of $100. It also should include an imputed value of income from nonincome-producing assets other than personal effects and furnishings. Since the poor as a group do not have significant amounts of assets other than homes and their personal belongings, this feature is designed to achieve two objectives: to avoid making payments to those with large amounts of assets not producing current income, and to provide for horizontal equity between homeowners and renters. The amount of imputed income is to be calculated as 10 percent of the value of net assets. Forms of income-in-kind and accrued capital gains are excluded.

Net Income

Gross income as outlined above does not recognize the expenses of earning income. Not subtracting these expenses from gross income implies an effective marginal tax rate on the earnings of some households which may be higher than the nominal rate associated with the program. The ideal way of recognizing work expenses is to allow households to itemize them as deductions. This is costly in terms of administration and necessarily involves subjective evaluations of claims. It is not done under the income tax. Alternatively, a flat sum or percentage of earned income could be exempted from the definition of income. That approach, in effect, provides preferential treatment for earned income rather than recognizing actual work expenses. And it adds a great deal to program costs.

In view of these difficulties the Commission recommends the inclusion of all income from

sources other than entrepreneurship without subtraction of work expenses in the income subject to the 50 percent reduction rate. Self-employment income is included net of ordinary business expenses.

Relationship of Wealth to the Income Base

It can be argued that, in addition to the household's income, its stock of capital or some fraction of that stock should be included in "income" subject to the offset tax. The argument for including at least some fraction of wealth is that the household should be forced to liquidate at least part of its wealth in order to be eligible for an income supplement. This approach has been standard under Public Assistance programs, in which typically all assets, sometimes including owner-occupied houses above a minimal value, must be disposed of to establish eligibility. The result is that applicants must become complete paupers before they can receive aid.

Income from wealth—either actual income or imputed income as discussed earlier—should be taken account of in defining income. But there are two basic arguments against the inclusion of the gross value of income-producing assets in income. First, current income comprehensively defined is the appropriate measure of economic well-being. Second, the inclusion of wealth would involve high administrative costs, while the actual effect of making this inclusion would be negligible. In practical terms the exclusion is insignificant; few assets other than homes are owned by the poor.

Vehicles for Differentiation

There are several means of differentiating among various groups in the population: varying tax rates for demographic groups or income sources; varying guarantee levels for different groups; or excluding some forms of income from consideration. The Commission has allowed no variations in its program in any of the basic parameters for different groups.

As an example, one could propose a high tax rate for the aged along with a guarantee level higher than for the nonaged. This would discourage the aged from working. While many of the aged do not work, increasingly the aged can work and want to work. We see no reason to penalize that effort. Nor do we find a good reason for providing a higher guarantee for an aged poor person than for a nonaged poor person.

As an example of differentiation in income definition, "unearned" income—public transfers under social insurance, rent, dividends, private pensions—could be taxed at 100 percent on the grounds that this treatment would reduce program costs and not discourage work. But in fact, these sources of income generally are viewed as deferred compensation. They are a form of earnings. To tax them at a 100 percent rate would have the undesirable effect of discouraging savings, and the future development of social insurance and private pensions for lower-income workers.

The Commission proposal is universal in coverage and does not make distinctions between population groups. When allowance is made for family size in determining income need, the relevant criterion for making supplementary payments is that of income need and not demographic factors.

Integration with the Positive Income Tax

Integration with the Federal income tax is an issue if the family's breakeven level of income is greater than the family's exemptions and deductions defined by the Internal Revenue Code. This is potentially true for all family sizes under the recommended program.

There are basically three ways in which to integrate the two systems. The first way is to have individuals and families continue to pay the positive tax at their present rates; in effect netting their supplement against their Federal tax liability. The advantage of this approach is that there is a smooth transition in terms of disposable income between taxpayer and tax recipient.

There are two disadvantages. The major disadvantage is that the marginal tax rate increases from 50 percent to 65 percent over the range of income where the individual both pays the 15 percent positive tax and receives a supplement. For a 4-person family, positive income tax would be paid on income over $3,000 at a 15 percent rate, and benefits would be reduced at a 50 percent rate on income up to $4,800. A second disadvantage is that logically it does not seem appropriate for income supplement recipients to pay Federal income taxes if their incomes are below levels that the Government deems in need of supplementation.

A second approach is to have individuals pay no Federal income tax as long as their net allowance is positive, after which they would pay the Federal tax at their present rates. The only possible advantage to this approach is its simplicity. The major disadvantage is that it creates a notch, with confiscatory marginal tax rates occurring at the breakeven level of income. Consider a family of four with an income of $4,800. At $4,800, their net allowance is zero and total income is $4,800. If the family earns another dollar of income, it is subject to the Federal income tax. A family of four has exemptions and deductions of $3,000, giving it a taxable income of $1,801. This results in a Federal tax liability of $260, leaving the family with a disposable income of $4,541. Thus, the additional dollar of income costs the family $260.

A third approach is to forgive part of positive tax payments for some part of the income range above the level of exemptions and deductions to keep the effective marginal tax rate to a maximum of 50 percent. This is achieved by allowing families either to pay ordinary Federal income tax, or to accept a net allowance based on receiving a gross allowance and paying an "offset tax" of 50 percent on their other income—including income beyond the nominal breakeven level. It is assumed that they will choose whichever gives them the largest disposable income. Program costs are somewhat higher, since some families, in effect, pay reduced Federal income tax.[2] The Commission has adopted the third alternative in developing its program, and tax losses are reflected in cost estimates.

Administration of the Program

Decisions regarding the administration of a program can have almost as great an effect on the final outcome of a program as decisions regarding the basic design and, like the design decisions, should be made to reflect social policy objectives. The Commission has several suggestions as to how the program should be administered. Whether or not these suggestions can be implemented depends on their operational feasibility. Ultimately, these are decisions which the administrators must make.

Coverage and Filing Units

There are three issues of concern: general eligibility, the definition of the filing unit, and the definition of an adult.

The first and third are relatively straightforward. Assuming an income deficit, the eligible population includes resident aliens, legally incompetent persons under wardship arrangements, and all U.S. citizens except for civilians living abroad, institutional inmates, and members of the Armed Forces. The definition of an adult is any person over 18 or any married couple, irrespective of their ages. Whether or not the individual actually receives the higher allowance depends on how many other adults are in the filing unit.

The appropriate definition of the filing unit is considerably more difficult. The ideal unit is clear. Individuals living as a family unit should file together. Individuals who are legally and financially separate from a family unit should file separately. The objective is to provide equitably for families who are separated in fact without providing encouragement for intact families to split or pretend to split. The following rules would

[2] For a detailed explanation of this plan see James Tobin, Joseph A. Pechman and Peter Mieszkowski, "Is a Negative Income Tax Practical?", *Yale Law Journal*, Nov. 1967, p. 14.

accomplish that objective. Married couples and dependents related by blood or marriage and living together must file a joint application, pooling all of their income. In addition, individuals who do not live with the family but who receive at least 50 percent of their support from the family must file with the family unit.

Filing and Payment

The Commission suggests that payments be made on a monthly basis and that income be reported on a quarterly basis. Payments can be based on the income reported for the preceding four quarters. That is, the accounting period for income determination is a full year.

Having the net allowance based on a four-quarter moving sum of income means that immediate income needs are covered only for those with chronic low incomes. For those with sharp income declines, payments are received with lags. This accounting period would focus benefits on the long-term unemployed, unemployables, those who chronically work at low-level wages, or who work at medium-level wages but with regular periods of unemployment, and so forth. It does not fill immediately the income needs for individuals facing sudden losses in income. As a result the individual has the greatest incentive to find additional work in the first few quarters following a drop in income. Conversely, it discourages individuals from voluntarily not working for short periods of time.

An alternative to this accounting period is to require a declaration of projected income for some period ahead. Such procedures raise serious enforcement problems. Recoupment of overpayments becomes important. The four-quarter moving sum feature requires no recoupment feature, since payments always are made on the basis of past income. Thus, when income rises due to finding employment, the recipient will continue to receive some benefits under this program based on past income inadequacy, with benefits tapering off as earnings enter their current average income. This provides even greater short-term work incentives to individuals because the 50 percent tax rate does not become effective immediately upon entering employment.

An accounting period based on current estimated income maximizes the responsiveness of payments to current needs at the cost of greater administrative difficulty and recoupment problems. Accounting periods are possible which shorten time lags between income changes and changes in payments. The Commission has recommended a period based on past income to avoid problems of recoupment. Adjustment of the accounting period can be made in the future to shorten time lags between a drop in income and the onset of payments. In the early stages of implementation it is most important, however, to avoid overpayment problems. As experience develops, accounting periods that minimize lags can be developed.

Audit Standards

At the initial filing and any time subsequently, income supplement recipients could be required to support the information reported on their returns. Sampling procedures should be used to maintain credibility of enforcement. The Commission suggests that auditing be done by the Internal Revenue Service.

Applicant Assistance

The Commission has proposed a system of Neighborhood Service Centers. In these centers, there could be personnel from the administering agency to assist people in filing their returns. Other persons providing services also could help income supplement recipients with their returns.

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